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LEVELLING UP: OUR ROADMAP TO ADDRESS INEQUALITY

BNP PARIBAS ASSET MANAGEMENT

The sustainable investor for a changing world

CONTENTS

FOREWORD 3

EXECUTIVE SUMMARY 4

INTRODUCTION 7
A holistic perspective on inequality 7
1. Investors should prioritise inequality 8
2. The changing nature of inequality 11
3. The drivers of structural inequality 13
4. Structural inequality presents a systemic risk 14
5. Our framework for taking inequality action 18

PILLAR 1 – FORWARD-LOOKING PERSPECTIVE: THE '3ES' 20
Gender equality: Broadening our understanding and strengthening social performance 20
Just Transition: Where the energy transition and equality meet 21

PILLAR 2 – RESPONSIBLE BUSINESS CONDUCT (RBC) 23

PILLAR 3 – ESG INTEGRATION 24
Social data: The next frontier of sustainability data 24
Corporates: Social issues within our ESG scoring framework 25
Sovereigns: Social issues within our ESG scoring framework 26
Our 'SDG Fundamentals' Framework calculates social revenue alignment 27
Sustainable Investment (SI): Social considerations within our SI definition 27

PILLAR 4 – STEWARDSHIP (VOTING, ENGAGEMENT, PUBLIC POLICY ADVOCACY) 29
Voting 29
Engagement 31
Public policy advocacy 34

PILLAR 5 – SUSTAINABILITY IN OUR PRODUCT RANGE 35
Equity 36
Fixed Income 37
Passive solutions 39
Private assets 39

PILLAR 6 – WALKING THE TALK 40

CONCLUSION 42

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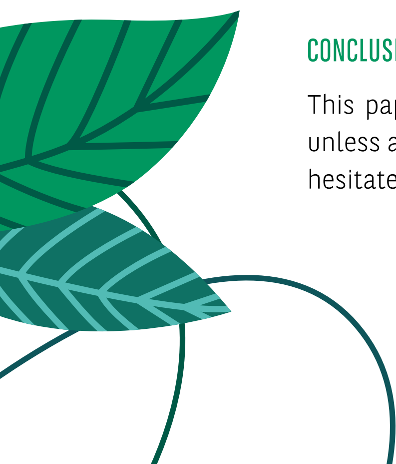

FOREWORD

Sandro Pierri
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Global Head of Sustainability

At BNP Paribas Asset Management (BNPP AM), sustainability is at the heart of our approach to investing. As a globally diversified investor, our 'universal owner' mindset recognises that short-term profits can often come at the expense of long-term value creation, particularly when these so-called 'externalities' compound to become systemic risk which, by definition, cannot be diversified away. Accordingly, we seek to actively address systemic risks to help promote greater market stability and improve overall market performance, while aiming to deliver superior long-term risk-adjusted returns to our clients.

When we launched our Global Sustainability Strategy (GSS)[1] in 2019, we outlined three preconditions for a sustainable economy: A successful energy transition, healthy ecosystems, and greater equality in our societies – our '3Es'. Taken together, these form a pathway to economic sustainability that will enable us to safeguard long-term returns for our clients. In 2021, we detailed our strategy and commitments related to healthy ecosystems in our Biodiversity Roadmap, and in 2022 we addressed our approach to supporting a successful energy transition in our Net Zero Roadmap.

With this document, we are pleased to share our Equality Roadmap, the third and final in the series. At BNPP AM, we have focused on contributing to mitigating structural inequality through significant actions and initiatives for several years. In recent years, there has been a growing consensus among the public, governments, corporations and investors that unequal access to opportunity and lack of social mobility poses long-term threats to social cohesion, trust and a healthy economy. Yet, unlike climate change, there is no Paris Agreement for addressing structural inequality. Concerted action is needed from a variety of stakeholders.

This roadmap strengthens our strategy and commitments to address inequality through three areas: Investments, stewardship and our operations. It also builds on the commitment of the BNP Paribas Group to contribute to a fairer and more inclusive society and deploy initiatives that promote the financial and social inclusion of the most vulnerable.[2]

The purpose of this document is not just to articulate our awareness of growing concerns regarding inequality; more importantly, it details our views on the complex nature and urgency of related impacts, and how we are actively responding to them. The topic is timely and important, but also complex. We do not purport to have all the answers – we invite investors to collaborate with us on the steps we set forth in this roadmap. Finally, we call on public and private sector actors to develop frameworks and binding agreements that take concrete steps towards tackling inequality in the interest of our mutual benefit.

1. Global Sustainability Strategy – An update on how we deliver meaningful returns - BNPP AM USA institutional investor (bnpparibas-am.com)
2. See Financial and social inclusion | BNP Paribas (group.bnpparibas) for more information.

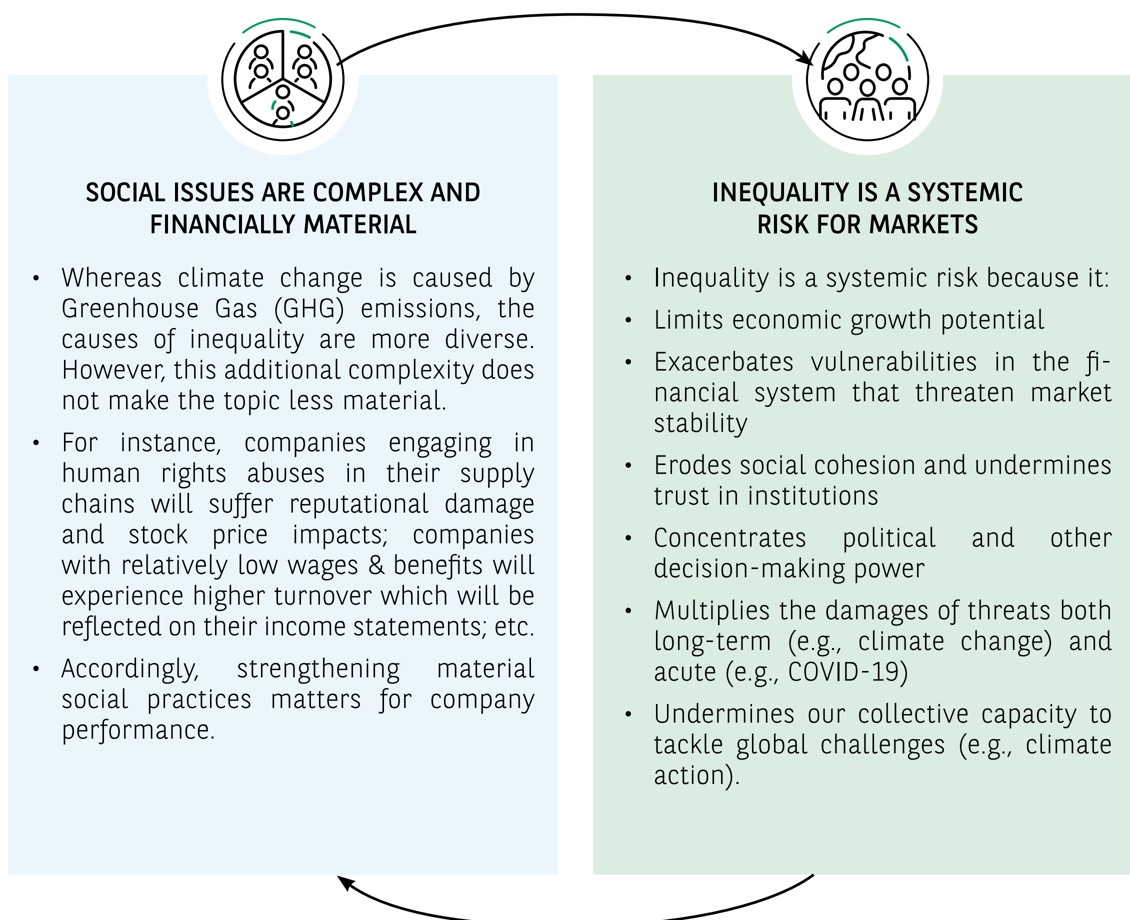
Executive summary

Our purpose at BNP Paribas Asset Management is to deliver long-term sustainable returns to our clients. By 'sustainable', we mean both returns that can be sustained over the long term and returns that are in balance with society and the environment. These two meanings of sustainable are inseparable – we cannot deliver long-term returns without helping to achieve the energy transition, healthy ecosystems, and greater equality in our societies.

Inequality – or the unequal distribution of income, wealth, and well-being – has reached unsafe levels. The income gap between CEOs and workers, the wealth gap between billionaires and the rest of society, and the lack of health and education access for the least advantaged even in wealthy countries, all point to the growing importance of inequality for society and the economic system we actively participate in.

This roadmap – the third in our '3Es' series – defines our holistic view of inequality (linking it to both social and environmental risks), establishes our conviction for why investors should prioritise addressing inequality, introduces a framework to support corporate inequality assessments, and links this framework to the way we invest – including how we generate investment ideas, construct portfolios, control for risk, and engage with companies and markets.

Our conviction is that social issues are financially material, and inequality presents both systemic risks to diversified portfolios and company-level risks to our investees.



Inequality has existed throughout history and is in some ways a natural by-product of our economic system. Our goal is not to prevent the occurrence of inequality. Instead, **we seek to address structural inequality** – which persists when circumstances at birth (e.g., parental resources, gender) are more determinative of income, wealth and well-being outcomes than individual talent and effort. The institutions and policymakers that control **access to opportunities** (e.g., decent jobs, healthcare) are the drivers of structural inequality and they are the focus of our strategy. Throughout this paper, our use of 'inequality' in discussing our own strategy typically refers to 'structural inequality'.

Investors may affect inequality outcomes through their support for a wide range of corporate actions across a company's operations, corporate governance, and products & services. Thus, because inequality poses a systemic and company-level risk to investees, **it is incumbent on us to explore which corporate actions increase inequality outcomes and seek how to strengthen practices to reduce them.** To support this, we have developed a new assessment framework, mapping key corporate actions that can impact inequality outcomes along with affected stakeholder groups.

Finally, addressing inequality also strengthens our ability to achieve a successful low-carbon energy transition and support healthy ecosystems, as the communities most vulnerable to ecological shocks are often the most unequal. Moreover, as observed in recent protests and elections, 'green' policies can be undermined when their impact (or lack thereof) on inequality outcomes is ignored. The result – negating collective progress towards achieving global emissions targets – poses severe consequences for society.

Our equality roadmap is categorised based on the six pillars of our GSS. **Below we highlight key aspects of our Equality strategy in these pillars along with our 'Areas of Focus' through 2025 in our investments, stewardship and operations.**

PILLAR 1: OUR FORWARD-LOOKING PERSPECTIVE: THE '3ES'

- The 3Es are interrelated and reinforce one another. Thus, we seek solutions at the intersection of our 3Es, such as the Just Transition, which sits at the nexus of our Energy transition and Equality strategies.
- Our holistic perspective on inequality frames our gender equality approach. We're onboarding new gender representation and pay gap data to strengthen our understanding of gender equality beyond the board room and to evolve our assessment of gender equality performance across sectors and between companies.

▷ **Focus area #1:** Strengthen our assessments of Just Transition and gender equality performance.

PILLAR 2: RESPONSIBLE BUSINESS CONDUCT (RBC)

- Our RBC policy is an effective tool to reduce inequality in areas such as human rights, labour standards and anti-corruption by divesting from the worst offenders and engaging when possible.
- We rely on international norms-based frameworks that constantly evolve and are often interpreted differently. This is especially true for social-related frameworks – our goal is to strengthen our collective understanding and enhance our approach where appropriate.

▷ **Focus area #2:** Conduct internal deep dives covering norms-based frameworks and their evolving applications; enhance our approach on adherence to these frameworks in our investment process.

PILLAR 3: ESG INTEGRATION

- Social data is limited by inconsistent disclosure driven by patchwork regulation, limiting investors' ability to identify risks and opportunities. We're onboarding new data that supports stronger assessments of company social performance.

▷ **Focus area #3:** Integrate new social data to enhance our existing social performance assessments in our investment and engagement processes; incorporate enhanced social indicators into our proprietary ESG Scoring Model.

PILLAR 4: STEWARDSHIP (VOTING, ENGAGEMENT, PUBLIC POLICY ADVOCACY)

- Our efforts to address inequality through stewardship activity are grounded in the notion that good corporate governance fosters equality and balance.
- We have a very strong record of casting proxy votes in support of greater gender diversity on boards and challenging executive compensation, and also vote for a high percentage of shareholder proposals annually that are focused on reducing inequality.

▷ **FOCUS AREA #4:** Continue addressing inequality drivers through our proxy votes on issues such as board composition and executive compensation. Explore expanding our voting policy to address other aspects of inequality.

▷ **FOCUS AREA #5:** Support shareholder proposals designed to reduce corporate contributions to inequality and/or strengthen equality practices. Explore submitting shareholder proposals on inequality-related topics, where warranted.

▷ **FOCUS AREA #6:** Expand our engagements on equality priorities tailored according to regional contexts, both directly with issuers as well as through ongoing collaborative initiatives; explore joining new relevant initiatives.

▷ **FOCUS AREA #7:** Seek new opportunities to influence institutions and policies to drive opportunities that will improve inequality outcomes, such as through the development of social taxonomies, disclosure frameworks and related industry initiatives.

PILLAR 5: SUSTAINABILITY IN OUR PRODUCT RANGE

- Our industry-leading strategies including our Social Bond, Inclusive Growth, and *Développement Humain* strategies allocate capital to issuers with strong equality practices.
- Our solidarity investments, including our award-winning Social Business Impact strategy, affirm our commitment to channelling capital to the Social and Solidarity Economy by funding projects that improve access to opportunity and mitigate inequality outcomes.

▷ **FOCUS AREA #8:** Improve existing equality and social-themed investment strategies by strengthening underlying social indicators and models; increase our social and equality-themed investments.

PILLAR 6: CSR – 'WALKING THE TALK'

- Our CSR approach, from internal diversity representation ambitions to our choice of charity partners, reflects our holistic perspective on inequality.

▷ **FOCUS AREA #9:** Continue building a more gender-equal workplace by achieving our gender representation targets for women in senior management positions, on internal boards, and in our leadership talent pipeline; draw upon strategies for recruiting women into our investment teams.

▷ **FOCUS AREA #10:** Strengthen our programmes that aim to help young people who face systemic barriers to equal opportunity find entry and achieve success in the workforce.

Introduction

Inequality has reached a crisis point

Global inequalities are about as great today as they were at their prior peak in the 1910s.[3] In the last half-decade, geopolitical shocks, Covid-19 and inflation have exacerbated this trend, and today, the real-world impacts of inequality are significant: "Prices are outpacing pay the world over, with hundreds of millions of people seeing their wages buy less each month... **791 million workers have seen their wages fail to keep up with inflation and as a result have lost USD 1.5 trillion** [from 2020 to 2022], **equivalent to nearly a month of lost wages for each worker.** Women are vastly overrepresented in the poorest-paid and least secure jobs, [and earn] just 51 cents for every USD 1 in labour income earned by men [factoring in gender pay gaps and labour force participation]."[4]

Inequality is causing real world disruption. Labour strikes, protests against fuel taxes and other green policies, and the rise of populism all point to a growing global sentiment: Anger that the current economic system isn't working for everyone. A recent Organisation for Economic Co-operation and Development (OECD) survey conducted across 27 OECD countries finds that "nearly 80% of respondents believe that economic inequality should be reduced or that more should be done to ensure equal opportunity...nearly 65% of working-age individuals are concerned about being less financially secure than their parents and an almost equal share fear their children will have comparatively lower living standards."[5, 6]

Inequality is a complex phenomenon that has always and will always exist to some degree

In calling for reducing inequality outcomes, we are not challenging the many benefits of competition – for wealth creation, innovation and even societal well-being – since competition naturally produces winners and losers. Instead, we seek to address unfair competition, which produces fixed categories of winners and losers. **Unfair competition is linked with structural inequality**, which robs us of two necessary preconditions for a healthy society and a stable economy: Equality of opportunity and well-functioning social mobility.

Access to high quality education and healthcare, decent jobs and living wages – these are some of the key features of **equality of opportunity,** or the extent to which people have the same chances to do well in life regardless of their circumstances at birth (e.g., parent resources, gender). **Social mobility** refers to a change in a person's socioeconomic situation, either in relation to their parents (inter-generational) or throughout their lifetime (intra-generational). The 'Great Gatsby Curve' illustrates that in countries with higher inequality, advantage or disadvantage at birth is passed down to children and the tie between parental economic status and the adult earnings of their children is strong.[7] Across all OECD countries, it takes nearly five generations for children from low-income families to approach the average income in their country.[8] The mutually reinforcing cycle of inequality and low social mobility have harmful consequences, including misallocation of human and financial capital, limiting human potential and innovation, and erosion of social cohesion and active participation in society.[9] Breaking this cycle, however, is not solely a moral concern or a matter of social justice.

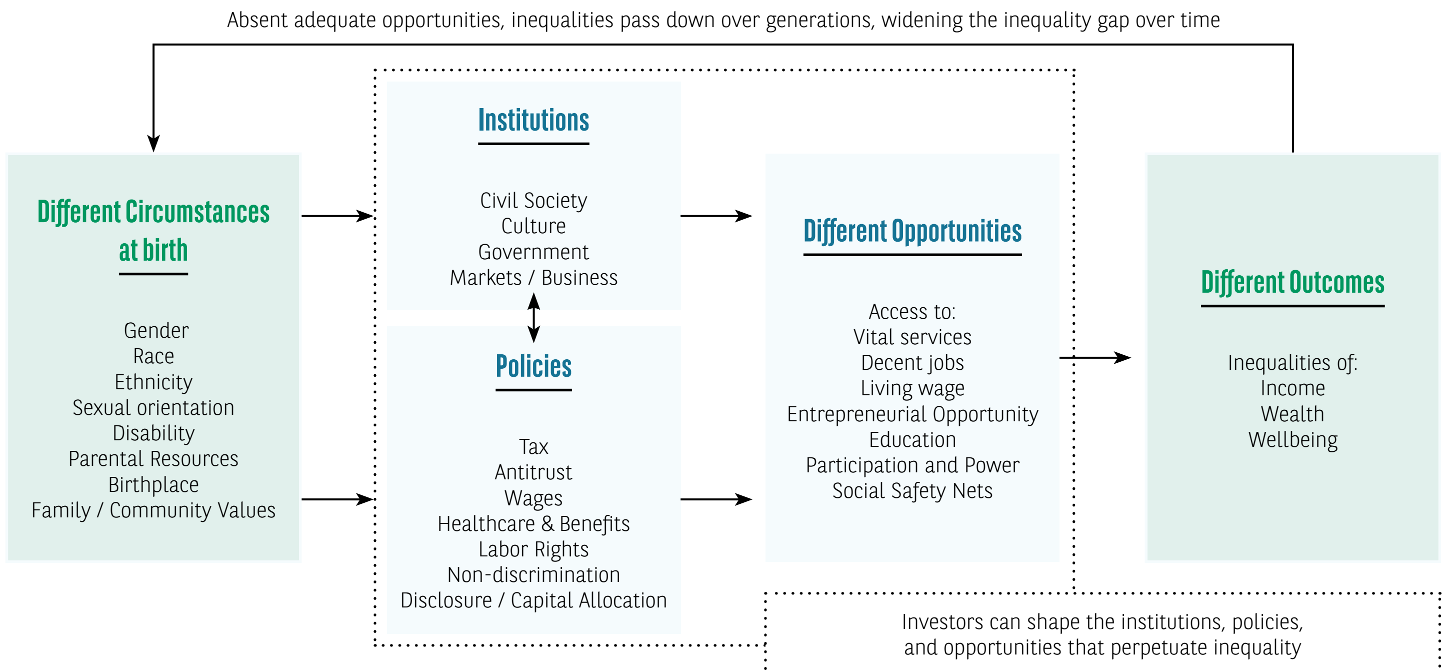
Promoting equality of opportunity and improving social mobility strengthens human potential and innovation, promotes social cohesion and inclusion, and fosters trust in public and private institutions – the building blocks of economic growth and market stability. Throughout this section, we outline a deep and varied evidence base further demonstrating these links.

A Holistic perspective on inequality

We use a holistic perspective to frame our strategy and to provide clarity on where investors can and cannot improve inequality outcomes – **the drivers of inequality.** Inequality starts from different circumstances of birth, often amplified by institutions and policies, enabling access to different opportunities, leading to inequitable and unequal outcomes.

3. Chancel, L., Piketty, T., Saez, E., Zucman, G. et al. World Inequality Report 2022, World Inequality Lab wir2022.wid.world
4. Inequality Inc. | Oxfam International
5. Perceptions of equal opportunities - OECD
6. OECD (2023), "Hard work, privilege or luck? Exploring people's views of what matters most to get ahead in life", OECD Policy Insights on Well-being, Inclusion and Equal Opportunity, No. 12, OECD Publishing, Paris, https://doi.org/10.1787/e1903ab2-en.
7. UNU-WIDER: Blog: The Great Gatsby Curve and the Global South
8. https://www.oecd.org/stories/social-mobility/
9. Narayan et al. 2018. Fair Progress? Economic Mobility across Generations around the World. Washington, DC: World Bank. License: Creative Commons Attribution CC BY 3.0 IGO.

Figure 1: A holistic perspective on inequality



Investors have historically addressed inequality in a piecemeal fashion, taking on working conditions in supplier factories, board diversity or corporate non-discrimination policies, for example. **Our conviction is that inequality underpins and reinforces many of today's social issues and therefore requires a holistic approach that treats structural inequality as systemic risk.** A holistic approach should allow us to connect issues that were previously siloed and uncover the underlying causes of the problem.

We seek to shape private sector activity to ensure that people's income, wealth and well-being are determined by their abilities and hard work rather than their circumstances at birth, enabling a more sustainable, inclusive and trusted economic system.

The remainder of this section details:

1. Why investors should prioritise inequality
2. The changing nature of inequality
3. The drivers of structural inequality
4. How inequality is a systemic risk and unprecedented opportunity
5. Our framework to assess key corporate actions that can impact inequality.

1. Why investors should prioritise inequality

To date, investors have not prioritised inequality. In part, this is because inequality risk is perceived as difficult to define and complex to measure; a matter of social justice only. It is also seen as financially immaterial and therefore not appropriate for investors to address. However, not too long ago, the same could have been said about climate risk. Researchers across disciplines developed better methodologies and tools to measure climate risk; climate action moved beyond the purview of activists alone to political leaders and CEOs; and the world reached a relative consensus on climate risk's economic and financial impacts.

In the near decade since the Paris Agreement was signed, countries and companies have made commitments, or taken steps to reduce their contribution to climate risk. Markets and the rules that govern them are shifting to account for the risks posed by a transition to a low-carbon economy as well as the physical risks of climate change. Many of the corporate responses to climate change have been driven by investors and climate risk is now considered a mainstream consideration for large asset owners and managers, globally.

Our focus on inequality is informed by a growing consensus among economists and other researchers on the economic and financial implications of inequality (see below: the changing nature of

inequality). Although inequality has long been a matter of concern for economists, its causes and impacts are now a focus of the **Intergovernmental Panel on Climate Change (IPCC)** (see below: the climate double bind) and the **US Federal Reserve**, which in a recent research note argues 'inequality may exacerbate vulnerabilities that have been shown to propagate shocks in the financial system and worsen real outcomes. A better understanding of these linkages and mechanisms would thus be granted.'[10] This paper in part serves to articulate our understanding of these links.

We first address two misconceptions that may impede investor action to address inequality risk:

1) *Inequality is financially immaterial and therefore it is not the role of investors to address it.*

Our conviction is that inequality risk can manifest systematically in the market and idiosyncratically for individual companies, presenting risks and opportunities for investors.

- Systemic risks significantly impact diversified portfolio returns. Research suggests that overall market movement (beta) is a dominant determinant of total return variation. As fiduciaries, it is incumbent on us to explore and, where possible, mitigate these risks. **We outline how inequality presents a systemic risk in detail below:** structural inequality is a systemic risk.
- **Inequality matters for individual company performance.**
  - ▷ Our conviction is that companies that strengthen equality within their workforce through material benefits (e.g., living wages) and strong values (e.g., diversity) are more attractive places to work and should be more likely to thrive in a competitive market for talent.
  - ▷ Research suggests that **high levels of employee satisfaction generate superior long-term returns even when controlling for industries or factor risk.**[12] In turn, these companies should see increased employee loyalty and commitment – critical factors during economic downturns – and reduced turnover. Improving equality of opportunity strengthens human capital and boosts resilience to economic shocks.
  - ▷ Companies that value diversity may limit discrimination in the hiring process and reduce incidences of workplace discrimination and sexual harassment. Gender and other identity-based discrimination imposes inappropriate barriers to entry for entire segments of the workforce that have unique talents and abilities to offer. Discrimination raises legal and reputational risk that threatens a company's 'social licence to operate'. Research suggests that when a risk event has a reputational risk impact, the losses can be significant.[13]
  - ▷ A wide body of research suggests that better workplace practices, including improved wages and a commitment to diversity, benefits shareholders. For example, according to one study, when companies increase wages, the resulting productivity gains outpace costs, with 80% of the improvement in turnover arising from workers' behavioural responses to higher pay.[14] Finally, a wide and growing body of research points to the potential financial performance benefits of increasing diversity (particularly gender) in boards and management teams.[15]

2) *Inequality risk might be material, but investors lack the tools to impact inequality outcomes.*

Investor decision-making impacts inequality outcomes. Investor demands for short-term profits may indirectly depress wages. Investor support for widescale corporate tax optimisation can impact public revenues that may otherwise be used to reduce a range of systemic risks. The companies that investors collectively own employ millions of people – the wages, benefits and opportunities provided to these people has widespread impact. As these impacts have financial relevance – to individual stock returns and to the performance of diversified portfolios – it is our role to account for these risks and develop an approach to managing them. Later in this section, we present a framework demonstrating how corporate actions can impact inequality outcomes and can improve or worsen the phenomenon (see our framework for action). Via this framework, investors can help shape the actions within their investee companies that impact performance and contribute to reducing the systemic risk of inequality.

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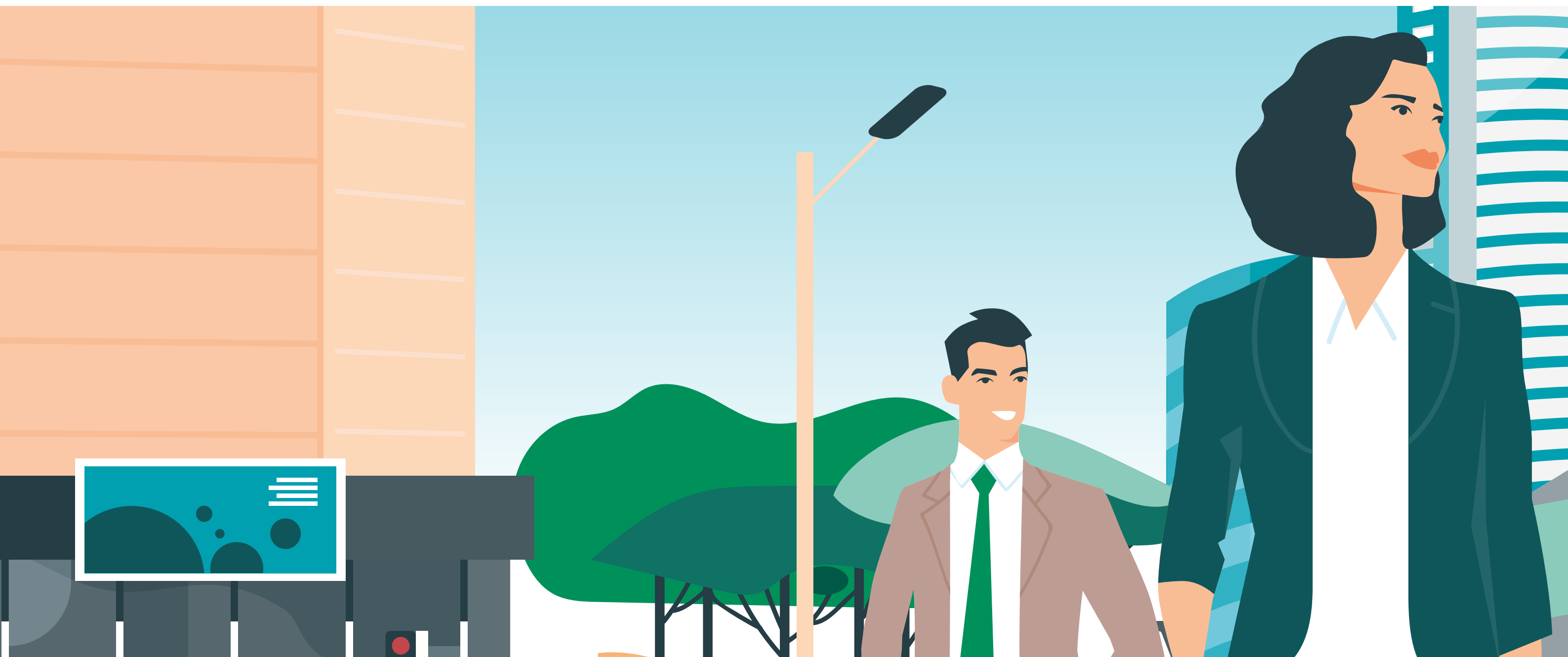
10. Isojaervi, Anni T., and Sam Jerow (2024). "Inequality and financial sector vulnerabilities," FEDS Notes. Washington: Board of Governors of the Federal Reserve System, April 19, 2024, https://doi.org/10.17016/2380-7172.3482.
11. Idzorek, Thomas M. "Asset Allocation is king." Morningstar Advisor paper (2010).
12. Employee Satisfaction and Stock Returns - (https://alphaarchitect.com)
13. climate-change-social-license-to-operate.pdf (https://firstsentierinvestors.com)
14. Emma Harrington and Natalia Emanuel. Working Paper. "The Payoffs of Higher Pay: Elasticities of Productivity and Labor Supply with Respect to Wages".
15. For example, see: https://blackrock.com/corporate/literature/whitepaper/lifting-financial-performance-by-investing-in-women.pdf; https://institutionalinvestor.com/article/2bswsjynb6yav80y7nmdc/culture/the-diversity-premium-more-women-higher; etc.



Box 1: Building private sector momentum for addressing inequality

Unlike climate change, there is not yet a global agreement to tackle inequality. There are no standards or benchmarks to articulate a 'tolerable' level of inequality for the world or individual nations. The Sustainable Development Goals (SDGs) include a focus on Reduced Inequalities (Goal 10). However, this goal is measured largely by sovereign-level indicators that do not directly consider the role of corporate activity in driving inequality. In the absence of a 'Paris Agreement on Inequality', investors, corporations, governments and other key stakeholders have signalled the importance of addressing inequality systemically and have begun to develop initiatives to do so:

- **The Taskforce for Inequality and Social-related Financial Disclosures (TISFD)** follows in the footsteps of similar taskforces on climate (TCFD) and nature (TNFD). TISFD, launched in September, 2024, seeks to strengthen the development of financial disclosures regarding inequality and social-related topics. It will build upon existing frameworks, standards, benchmarks and ratings to clarify the disclosure landscape on inequality and social-related issues, and it address gaps and weaknesses through comprehensive, evidence-based, and stakeholder-informed research.
- **The Business for Inclusive Growth (B4IG) Equity Action Platform**, a partnership between the OECD and the World Business Council for Sustainable Development (WBCSD), is a global CEO-led coalition of companies fighting against inequalities of income and opportunities. The Equity Action Platform is a private-sector coalition for implementing the Tackling Inequality Agenda developed by the Business Commission to Tackle Inequality (BCTI). The BCTI, which manages the Equity Action Platform, is made up of over 80 global leaders from business, the investor community, intergovernmental organizations, civil society and academia.
- In 2023, BNPP AM joined **Principles for Responsible Investment (PRI) Advance,** a coalition of 265 investors representing USD 35 trillion that seeks to advance human rights and positive outcomes for people through investor stewardship. PRI Advance supports investor engagement with 39 corporates from the extractive industries and renewable energy sector, encouraging the implementation of international standards on human rights and social issues, such as the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises.

Inequality has also gained momentum as a crucial component of global efforts to tackle climate change. (See our Just Transition strategy in Pillar 1 "Our '3Es' strategy" below).

2. The changing nature of inequality

Historically, inequality has been understood and measured through income disparity, often at country-level, with a focus on poverty rates. Through this lens, the world has made significant progress in reducing global extreme poverty: The share of people living below this threshold fell from 58% in 1950 to just 8% in 2020.[16]

Despite such remarkable progress, income and wealth inequalities have risen nearly everywhere in the world since the 1980s.[17] This is because the **nature of inequality has shifted. Today, within-country inequality better explains the inequality story than between-country, and wealth more so than income** (Box 2). In 2020, within-country inequality makes up ~68% of global inequality between individuals; the remaining ~32% is due to inequality between countries.[18]

National average income levels, used to measure between-country inequality, are poor predictors of inequality: "Among high-income countries, some are very unequal (e.g., the US), while other are relatively equal (e.g., Sweden). The same is true among low and middle-income countries, with some exhibiting extreme inequality (e.g., Brazil and India), somewhat high levels (e.g., China) and moderate to relatively low levels (e.g., Malaysia, Uruguay)."[19]

Additionally, the role of income and wealth distributions in shaping the macroeconomy and financial market outcomes is becoming better understood. In particular, the way wealth accumulates and concentrates for a select few increases aggregate savings in favour of spending and entrenches social immobility (more on this below).

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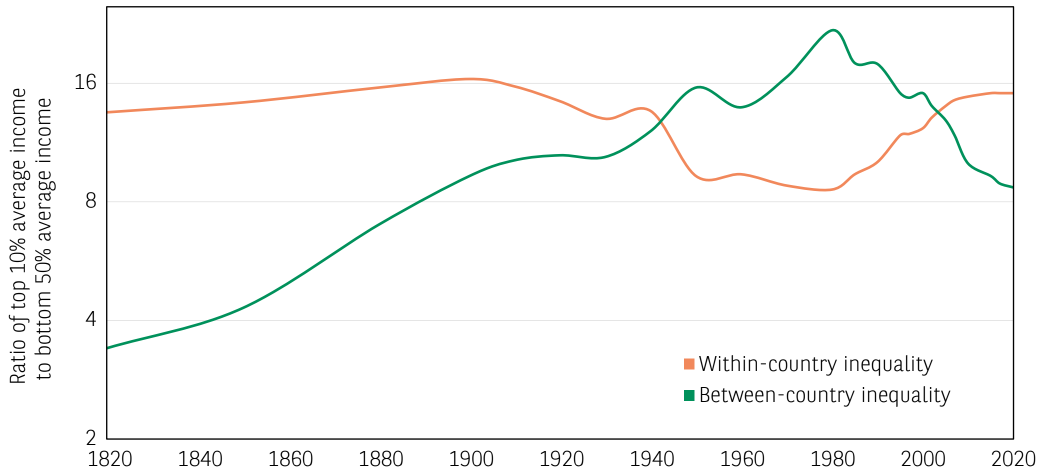
16. Estimates of global poverty from WWII to the fall of the Berlin Wall (worldbank.org)
17. Chancel, L., Piketty, T., Saez, E., Zucman, G. et al. World Inequality Report 2022, World Inequality Lab (wir2022.wid.world)
18. Ibid.
19. Ibid.

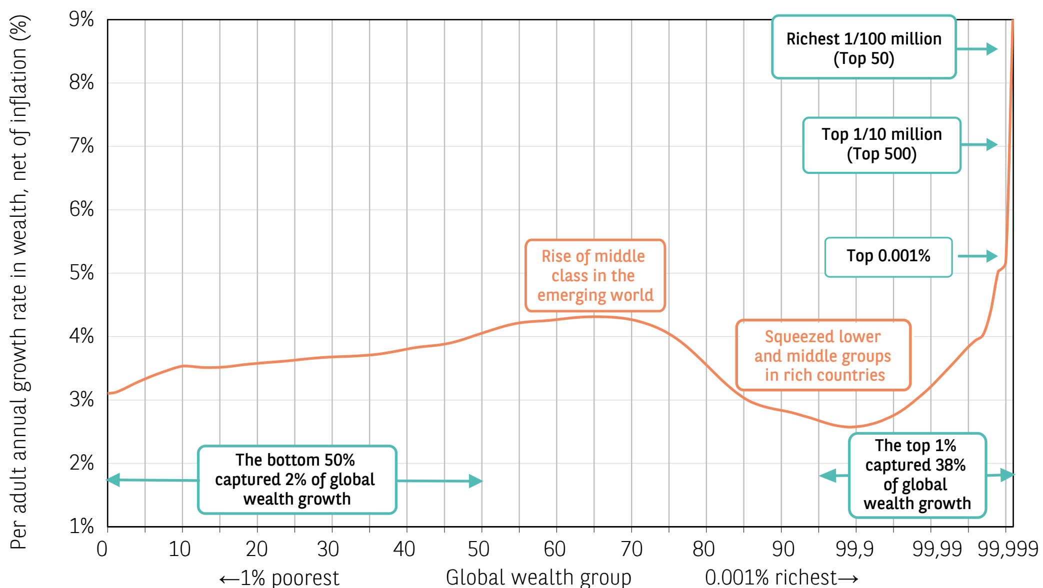
Box 2: The changing nature of inequality[20]

Figure 2.1 Global income inequality: Between-country vs. Within-country inequality (ratio T10/B50), 1820-2020



Between 1910 and 1980, within-country inequality was greatly reduced, largely due to rising social spending and progressive taxation, but between-country inequality continued to increase. The opposite occurred between 1980 and 2020: within-country inequality started to rise again, while between-country inequality declined. However, between-country inequality remains very high in absolute terms: in 2020, it is roughly at the same level as it was in 1900.

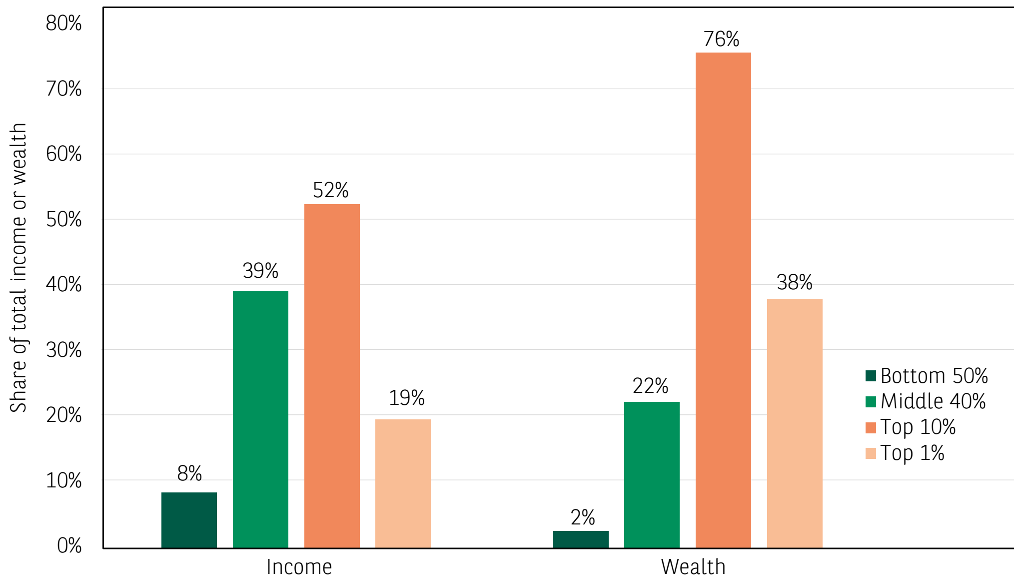
Figure 2.2 Average annual wealth growth rate, 1995-2021



From 1995-2021, the global top 1% captured 38% of total wealth growth while the global bottom 50% captured only 2% of total wealth growth. Globalisation contributed to improved living standards and the rise of the middle class in the developing world but disproportionately squeezed the lower and middle classes in parts of the developed world.

20. Ibid.

Figure 2.3 Global income and wealth inequality, 2021

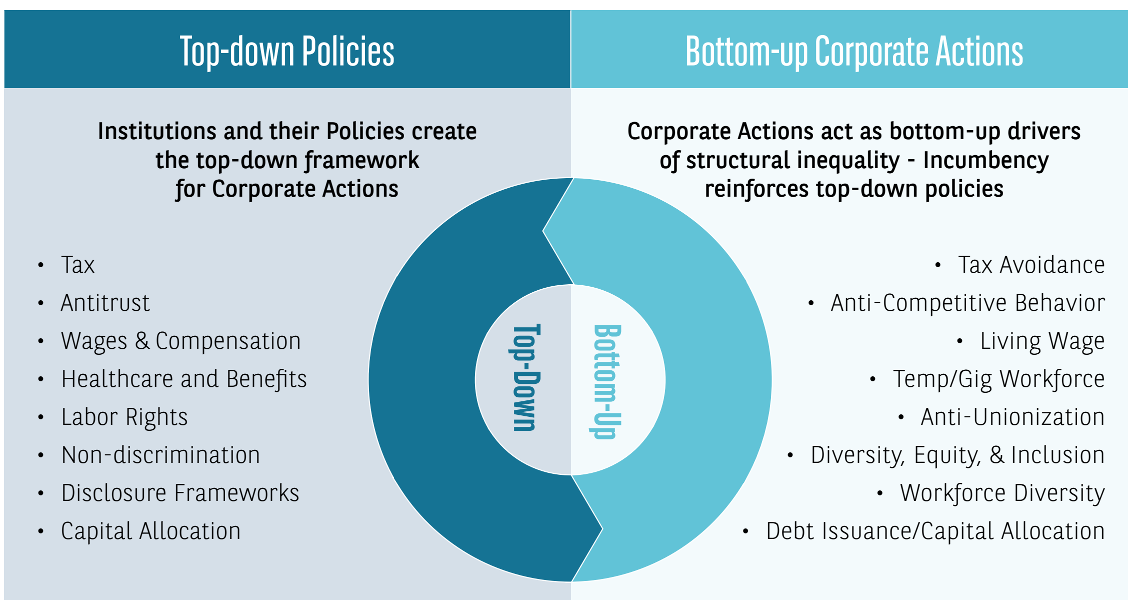


Global wealth is much more unequally distributed than income. The global top 10% owns 76% of total household wealth and captures 52% of total income. The global bottom 50% owns 2% of wealth and captures 8.5% of total income measured at Purchasing Power Parity (PPP).

3. The drivers of structural inequality

Given that inequality outcomes largely stem from inequality of opportunity,[21] our focus turns to the institutions that control access to those opportunities – the *drivers of structural inequality* from Figure 1 above. Broadly, these drivers are determined by two camps: Policymakers who implement the rules for market conduct (top-down) and private institutions, notably corporations, which generate market activity (bottom-up).

Figure 3: The drivers of inequality: Policy frameworks and corporate actions



21. We acknowledge that there are other important contributing factors to inequality including (but not limited to) tax, inter-industry pay practices, and individual ambition and ability. Some of these factors are fair; some unfair.

Figure 2 illustrates the mutually reinforcing relationship between the top-down and bottom-up drivers of inequality. Many of the causes of inequality as it exists today are exacerbated by corporate actions. While these actions take place in a permissible legal context, corporations are nevertheless contributing to structural inequality. We also concede that we are focusing on the aspects of inequality that we can influence. We don't have influence over all aspects, but we resolve to assess where we touch the issue and where we have potential influence. **As investors, we aim to mitigate systemic risk by addressing the drivers of structural inequality.**

4. Structural inequality presents a systemic risk

Structural inequality is a systemic risk for the following reasons:

Lower growth

- **More unequal societies have limited growth potential.** An OECD study found that an increase in income inequality across 19 OECD countries between 1985 and 2005 resulted in 4.7% of missed cumulative growth between 1990 and 2010.[22] Moreover, in an empirical study of 159 countries over a 30-year period, the International Monetary Fund found an inverse relationship between increased income accruing to the rich and GDP growth; conversely, they found a positive relationship between increased income accruing to the poor and middle class and GDP growth.[23]
- **Inequality can lead to a decline in aggregate demand driven** by wealthy consumers' lower marginal propensity to consume.[24] In turn, **inequality poses the risk of driving 'secular stagnation'** – a macroeconomic condition typified by high savings, low investment and low growth in developed economies.[25] Furthermore, when consumer spending is financed by credit, aggregate demand becomes more volatile as highly indebted households are more sensitive to income fluctuations.[26]

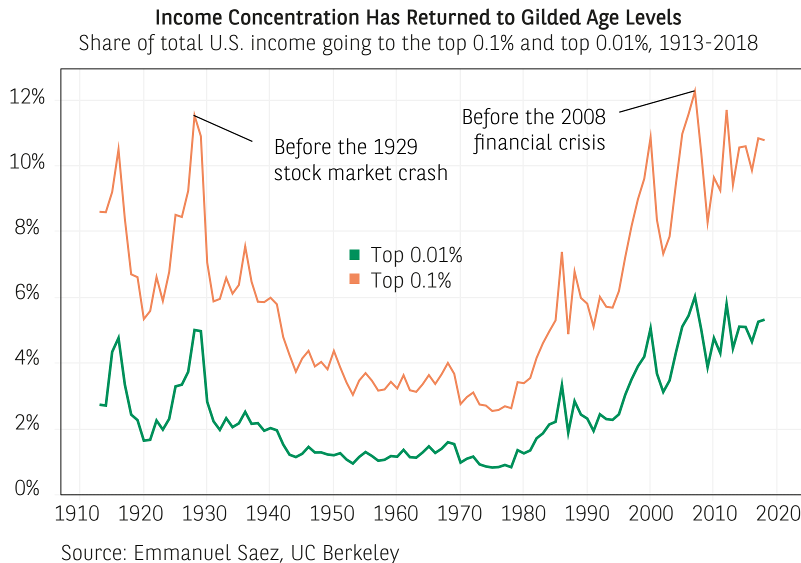
Financial crisis risk

- Inequality is associated with frequent and deeper recessions; both the Great Depression and Great Recession were preceded by large spikes in income inequality.[27] (See Figure 3)
- A growing body of evidence suggests that rising inequality has a causal effect on financial crises, limiting short and long-term growth.[28] Studies show that **prolonged higher inequality was associated with the 2008 Global Financial Crisis (GFC) by intensifying indebtedness, overextension of credit, and a relaxation in mortgage-underwriting standards.**[29]
- **Inequality is linked to asset bubbles and credit risk.** Inequality causes individuals to experience financial insecurity and turn to credit to fund their standard of living. This reliance on credit has been found to be largely funded by the substantial increase in savings accumulated by

22. OECD (2015), In It Together: Why Less Inequality Benefits All, OECD Publishing, Paris, https://doi.org/10.1787/9789264235120-en.
23. International Monetary Fund (IMF) (2015). Causes and Consequences of Income Inequality: A Global Perspective. International Monetary Fund. Washington, DC: June 2015. Retrieved from https://www.imf.org/-/media/Websites/IMF/imported-full-text-pdf/external/pubs/ft/sdn/2015/_sdn1513.ashx September 2023 (p. 7).
24. Fisher et al., Estimating the marginal propensity to consume using the distributions of income, consumption, and wealth, Journal of Macroeconomics, Volume 65, 2020. Retrieved from https://www.sciencedirect.com/science/article/pii/S0164070420301440.
25. Tim Jackson, The Post-growth Challenge: Secular Stagnation, Inequality and the Limits to Growth, Ecological Economics, Volume 156, 2019. Retrieved from https://www.sciencedirect.com/science/article/pii/S0921800918309455.
26. Baker, "Debt and the Consumption Response to Household Income Shocks," February 20, 2015, finds that due to the large build-up of household debt, the drop in consumption during the 2007-2009 recession was ~20% greater than what would have been seen with household balance sheet positions that were in place in 1983.
27. Income Inequality and the Great Recession. Report by the U.S. Congress Joint Economic Committee. (2010).
28. International Monetary Fund (IMF) (2015). Causes and Consequences of Income Inequality: A Global Perspective. International Monetary Fund. Washington, DC: June 2015. Retrieved from https://www.imf.org/-/media/Websites/IMF/imported-full-text-pdf/external/pubs/ft/sdn/2015/_sdn1513.ashx September 2023 (p. 7). "Kumhof and Ranciere (2010) and Kumhof and others (2012) show that rising inequality enables investors to increase their holding of financial assets backed by loans to workers, resulting in rising debt-to-income ratios and thus financial fragility. The latter can eventually lead to a financial crisis."
29. Ibid. How Inequality Fueled the Crisis by Raghuram G. Rajan - Project Syndicate (project-syndicate.org).

wealthy households.[30] In turn, this can lead to waves of consumer or household defaults and postponed payments on debt and rent, thereby impacting the economy and markets.[31] In 2022, World Economic Forum (WEF) identified debt crises in its Top 10 most severe global risks over the next 10 years.[32]

Figure 4: Historical peaks in inequality have preceded financial crises[33]



In the US, the peak in the top 1% earners' share of total US income preceded the 1929 stock market crash, and again before the 2008 GFC.

Compared to the Great Depression, the top 1% had a much swifter recovery following the Great Recession.

Erosion of social cohesion and trust

- Inequality contributes to breakdowns in social cohesion[34] which in turn can have widespread impacts on macroeconomic conditions that matter for investment markets including Gross Domestic Product (GDP) growth.[35]
- Social cohesion is the fourth most severe global risk over the next 10 years, per WEF's 2022 Global Risk Report. And in WEF's Global Risk Perceptions Survey, social cohesion erosion is the risk that has worsened the most globally since the start of the Covid-19 crisis. It is perceived as a critical threat to the world across all time spans—short, medium and long term—and is seen as among the most potentially damaging for the next 10 years.[36]

Political risk

Inequality can help concentrate political and decision-making power in the hands of a few, cause political and economic instability that limits investment opportunities, and diminish trust in key institutions.[37]

Risk multiplier

Inequality multiplies the damage of other threats both long-term (climate change) or acute (Covid-19) and undermines our collective capacity to tackle complex global challenges.

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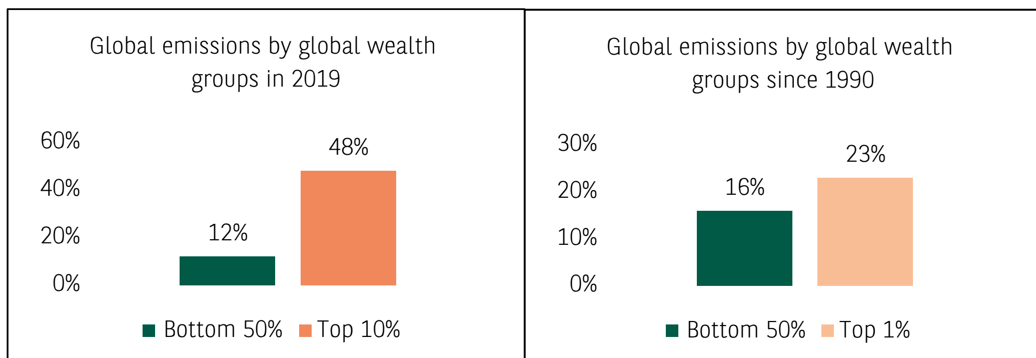
30. At the peak in 2007, the net household debt position of the top 1% was 12 percentage points of national income, and the net household debt position of the bottom 90% was negative 39 percentage points of national income. Over 30% of the rise in net household debt owed by the bottom 90% was financed by the top 1%. Mian, Straub, and Sufi, The Saving Glut of the Rich. (2021). https://scholar.harvard.edu/files/straub/files/mss_richsavingglut.pdf.
31. Predistribution Initiative (PDI) (2021). Rothenberg Chappe, and Feldman, ESG 2.0: Measuring and Managing Investor Risks Beyond the Enterprise-Level. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3820316.
32. WEF_The_Global_Risks_Report_2022.pdf (weforum.org).
33. https://inequality.org/facts/income-inequality/#income-inequality. Original source: Saez, *Striking it Richer: The Evolution of Top Incomes in the United States (Updated with 2018 estimates). 2020.* https://eml.berkeley.edu/~saez/saez-UStopincomes-2018.pdf.
34. Kate Pickett and Richard Wilkinson: 'Inequality strikes at our health and happiness' | Inequality | The Guardian.
35. The Macroeconomic Impact of Social Unrest (imf.org).
36. Chapter 1. Global Risks 2022: Worlds Apart - Global Risks Report 2022 | World Economic Forum (weforum.org).
37. International Monetary Fund (IMF) (2015). Causes and Consequences of Income Inequality: A Global Perspective. International Monetary Fund. Washington, DC: June 2015. Retrieved from https://www.imf.org/-/media/Websites/IMF/imported-full-text-pdf/external/pubs/ft/sdn/2015/_sdn1513.ashx September 2023 (p. 5).

Box 3: The Double Bind: Inequality both multiplies climate risk and undermines climate action

Higher wealth correlates with higher per capita greenhouse gas (GHG) emissions while poor countries that emit the least, bear the brunt of the impact (see charts below). This should be no surprise – the Industrial Revolution simultaneously drove enormous wealth creation and climate change, placing the world's wealthiest people atop a system heavily dependent on fossil fuels.



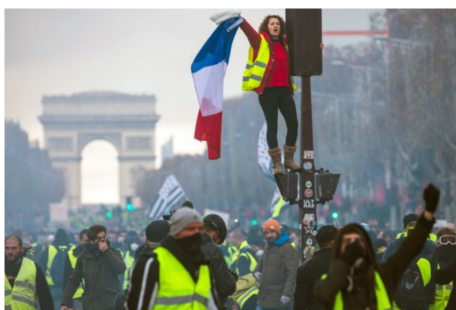
The Nature Sustainability study above continues: "While per-capita emissions of the global top 1% increased since 1990, emissions from low and middle-income groups within rich countries declined. Contrary to the situation in 1990, **63% of the global inequality in individual emissions [in 2019] is due to a gap between low and high emitters within countries rather than between countries. The bulk of emissions from the global top 1% comes from their investments rather than from their consumption."**[38]

In their sixth assessment report, the IPCC concludes, "**Adverse impacts of climate change... and inequality exacerbate each other.** Existing vulnerabilities and inequalities intensify with adverse impacts of climate change. These impacts disproportionately affect marginalised groups, amplifying inequalities and undermining sustainable development...If future climate change under high emissions scenarios continues and increases risks...losses and damages will likely be concentrated among the poorest vulnerable populations."[39]

At the same time, **failure to address inequality can backfire, undermining climate action.** In 2018, the Gilets Jaunes (Yellow Vests) movement in France began in direct response to a

38. https://www.nature.com/articles/s41893-022-00955-z.
39. Chapter 8: Poverty, Livelihoods and Sustainable Development | Climate Change 2022: Impacts, Adaptation and Vulnerability (ipcc.ch).

carbon tax which sparked broader concerns regarding rising fuel prices, high costs of living and economic inequality. More recently, farmers across several EU states protested volatile prices, high costs and a reform of the EU's Common Agricultural Policy, which sets subsidies and environmental conditions for the sector.[40] In part due to these protests, the EU dropped its goal of halving pesticide use by 2040, a key provision in its Green Deal climate law.



A woman in a yellow vest, as a symbol of French drivers' and citizens' protest against higher fuel prices, waves a French flag during clashes with police forces on the Champs Elysée as part of a nationwide protest © Christophe Petit Tesson/EPA-EFE

Farmers in Spain join the demonstrations against EU agricultural policies. The protests obstructed major arteries and city streets in several EU states © David Borrat/EPA-EFE

Inequality creates a double bind: Status quo policies which serve to increase GHG emissions disproportionately impact vulnerable groups; climate action policies designed to reduce GHG emissions can exacerbate social risks for the very same communities. These movements are a reminder that our ability to manage long-term and acute risks is strengthened by our work to minimise inequality and maximise opportunity for social mobility.

Navigating this double bind requires a vigilant and 'Just' approach. Vigilance not to allow the spectre of social risks and/or backlash posed by the transition to a low-carbon economy to delay or weaken the policies required for the transition – especially when inaction will further exacerbate inequality and the adverse impacts of climate change on vulnerable groups.

(For information on our Just Transition strategy, see Pillar 1 "Our '3Es' strategy" *below**).*

40. The Power of Europe's rebellious farmers, The Financial Times. 9 February 2024. https://on.ft.com/3urQGgl.

Reducing structural inequality represents an unprecedented opportunity

Addressing inequality represents an unprecedented opportunity to: Increase economic growth, reverse wage stagnation and increase consumer purchasing power, improve stability in financial markets, and improve social cohesion.

Eliminating gender discrimination and investing more in employees has the potential to yield trillions of dollars in benefits for global economies. The Business Commission to Tackle Inequality (BCTI), citing a broad evidence base, finds:[41]

- Closing the living wage gap worldwide could generate an additional USD 4.56 trillion every year through increased productivity and spending.
- Gender-parity improvements could add USD 13 trillion to global GDP and create 230 million new jobs for women by 2030.
- Investment in employee upskilling could boost GDP by USD 6.5 trillion by 2030.

5. Our framework for taking inequality action

To minimise systemic risk and identify idiosyncratic risks and opportunities for investment, investors should assess and help to shape relevant corporate actions that contribute to structural inequality. We have developed a framework to assess how key corporate actions can impact inequality across a firm's business operations, corporate governance & business ethics, and products & services.

Our framework incorporates a multi-stakeholder view, as different corporate actions exacerbate inequality outcomes for different groups. Our framework is aligned with the stakeholder groups identified by the Corporate Sustainability Reporting Directive (CSRD)'s European Sustainability Reporting Standards (ESRS): Own Workforce, Workers in the Value Chain, Affected Communities, Consumers & End-Users.[42]

Figure 5: Our framework for taking action on corporate inequality drivers

Business Function	Select Key Corporate Actions that can Impact Inequality Outcomes (ESRS Stakeholder Group)		
BUSINESS OPERATIONS	**OWN WORKFORCE (S1) + WORKERS IN THE VALUE CHAIN (S2)** • Wages & Compensation • Healthcare and Benefits • Labour Standards & Working Conditions • Terms of Employment • Freedom of Association • Diversity, Equity & Inclusion (DEI)	**AFFECTED COMMUNITIES (S3)** • Free prior informed consent • Ongoing community engagement	CLIMATE AND NATURE ACTION CAN IMPACT INEQUALITY OUTCOMES, AND VICE-VERSA
CORPORATE GOVERNANCE & BUSINESS ETHICS	**ALL STAKEHOLDERS** • Board Composition • Executive Pay • Disclosures and Transparency • Human Rights Due Diligence	• Capital Allocation • Tax Practices • Political Lobbying • Anti-bribery & Corruption	
PRODUCTS & SERVICES	**CONSUMERS & END-USERS (S4)** • Access and Affordability • Externalities		

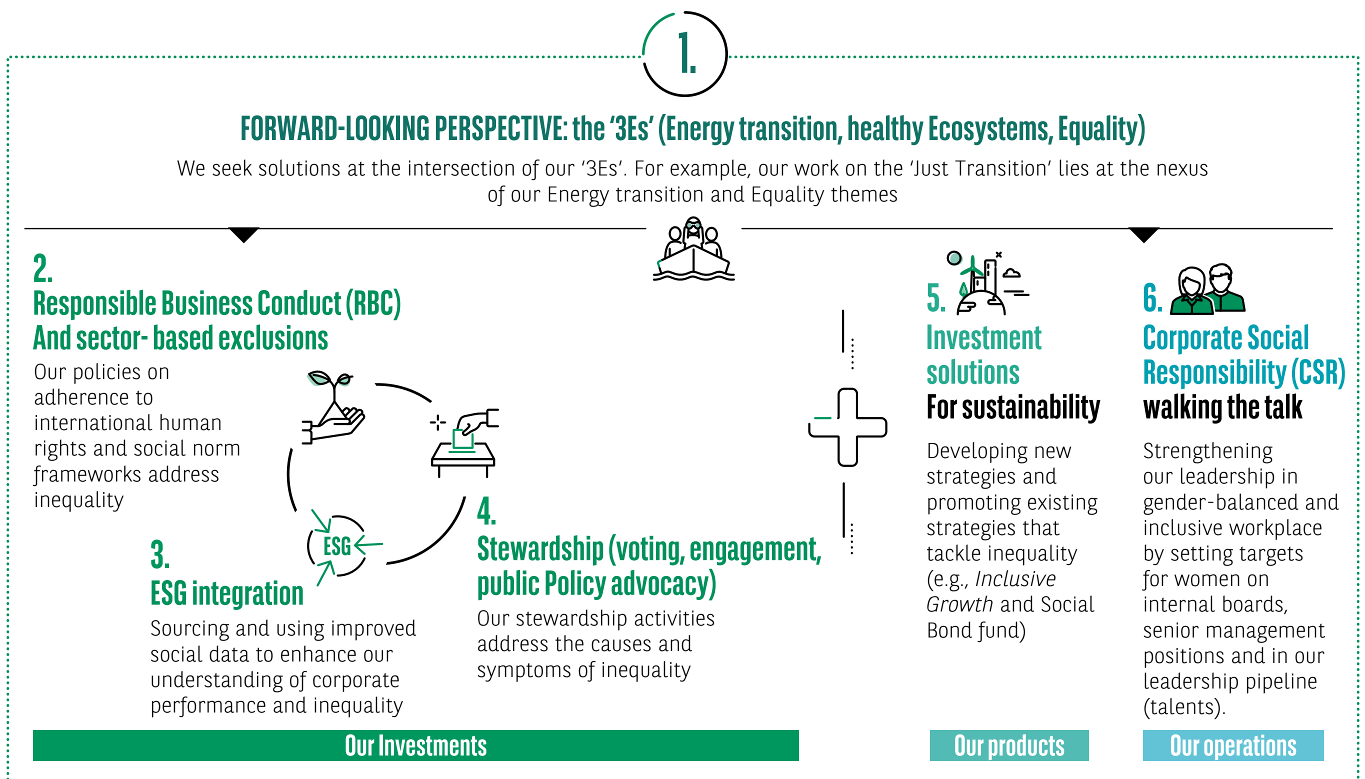
41. Business Commission to Tackle Inequality (BCTI). 2022. Tackling Inequality: The Need and Opportunity for Business Action.
42. EFRAG. European Sustainability Reporting Standards (ESRS).

As explained above, corporations can be 'bottom-up' drivers of structural inequality. Our framework identifies key areas where corporate action can positively or negatively affect inequality outcomes for different stakeholder groups. The relative importance of each is largely dependent on the industry, sector, country and region they operate in. As referenced in Box 3, we believe taking action to address climate change and nature loss can help to mitigate inequality outcomes and vice-versa, as low-income and under-represented communities are disproportionately impacted by climate change and nature degradation.

While this framework is holistic, it is not exhaustive, nor does it rank corporate actions by their contribution to structural inequality. Inequality is a multifaceted issue, and we are relatively early in our understanding of these issues and will refine our thinking over time. Our framework is a starting point for further assessment and action – a mapping that identifies where the drivers of inequality might be found.

The remainder of this paper details our strategy to strengthen equality in our investments, products and operations through the six pillars of our GSS (see Figure 6).

Figure 6: How we address inequality through the six pillars of our GSS



PILLAR 1 – FORWARD-LOOKING PERSPECTIVE: THE '3ES'

▷ **Focus area #1:** Strengthen our assessments of Just Transition and gender equality performance.

Our forward-looking '3Es' are interrelated in complex ways – each driving and undermining our ability to achieve the others. We must tackle them together. A successful energy transition and a healthy biosphere are essential to human prosperity, but they cannot be achieved unless they are approached equitably. They require greater global social cohesion and fulfilled agreements on burden sharing given disproportionate legacies of impact. Left unabated, climate change and nature loss will continue to expose the gaps in our social safety nets, punishing the least responsible and most vulnerable members of our societies first and most severely.

Our Equality theme covers a range of topics which will evolve over time. Below we provide an overview of research projects underway at the forefront of our Equality strategy.

Gender equality: Broadening our understanding and strengthening social performance

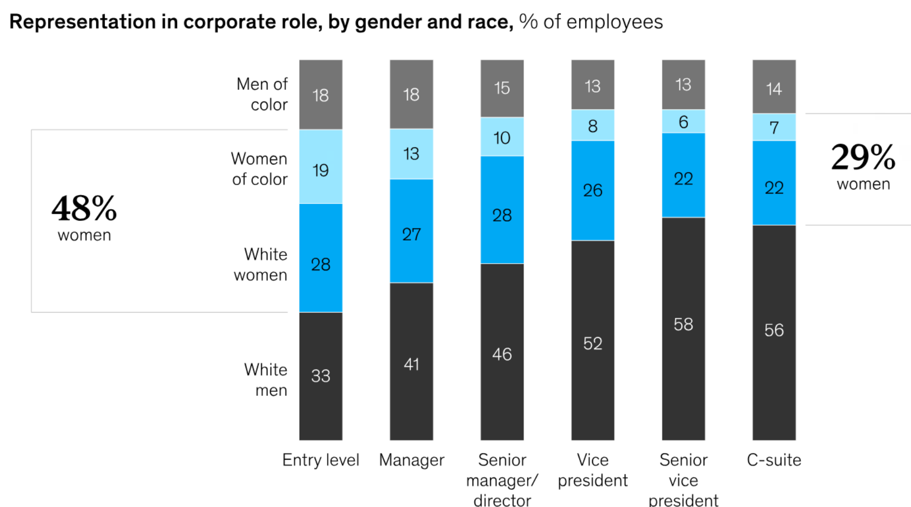
As outlined in the introduction, gender inequality is a key driver of inequalities of income, wealth and well-being. Boardroom diversity is important for companies because it enhances decision-making and is responsive to shareholder concerns as well as evolving regulatory requirements. It is also important for women in the workforce because it demonstrates that the 'glass ceiling' can be broken in a corporate board culture that until recently was made up almost entirely of white men.

However, **board diversity is not necessarily representative of diversity within employee ranks.** Board directors may not be employees, and very few employees ever become board directors. If we are resolved to reduce structural inequality and seek to improve equality of opportunity for women in the workforce, our assessment of gender equality performance must evolve and improve too.

To strengthen our holistic understanding of gender equality performance, we should measure gender representation and pay gaps at multiple levels, including total employees, senior management, executive and C-suite leadership, in addition to the boardroom. Senior management is a primary concern for diversity assessments since employees drive day-to-day decision-making and how companies hire and retain employees is more important to understanding their impact on structural inequality than the make-up of the boardroom.

For instance, the dynamics of employment patterns in corporations demonstrate a steady decline in female representation as seniority levels increase (Figure 7). This decline is attributable more to what McKinsey refers to as a 'broken rung' in the employment ladder rather than a 'glass ceiling'. This broken rung results from women being promoted to first-tier manager positions at a much lower rate than men, progressively thinning the ranks for eligible female promotions at each successive career stage. The causes of this broken rung in the corporate employment ladder for women are various, though they may include a lack of adequate parental leave policies or a lack of flexible working arrangements.

Figure 7: Women face a 'broken rung' in the employment ladder[43]



43. Women in the Workplace 2023 report | McKinsey

Until recently, our ability to measure a company's overall gender equality performance has been limited by patchwork disclosure frameworks and limited data availability. We recently contracted with a new social data provider to access innovative new social performance metrics, such as the gender equality metrics referenced above (see Pillar 3 below) to help fill those gaps.

Armed with better data, our gender equality research will enable us to take meaningful action across numerous aspects of our sustainability strategy. We seek to use better gender equality performance data to strengthen identification of social investment risks and opportunities and support more meaningful issuer engagement.

Just Transition: Where the Energy transition and Equality meet

As outlined above, inequality creates a double bind: It multiplies the threat of physical climate risk which disproportionately impacts the most vulnerable, and undermines the very policies and activities meant to mitigate that risk and improve life for those communities.[45] The Paris Agreement acknowledges this by setting the goal of net zero GHG emissions by 2050 and explicitly stating that this goal "[takes] into account the imperatives of a **Just Transition** of the workforce and the creation of decent work and quality jobs in accordance with nationally defined development priorities."[44]

To navigate the double bind, accelerate climate action and optimise its benefits, we seek to be both vigilant and 'Just' in our own net zero approach: Vigilance in the face of those wishing to use potential social risks and backlash as reasons not to set and achieve necessary climate goals; and 'Just' – emphasising a fair and inclusive approach to our net zero commitments to ensure that workers and communities are not left behind.

If managed well, the net zero transition will mitigate the adverse effects of climate change for the most vulnerable communities and also improve growth, generate net new jobs and reduce inequality.[45] However, these benefits will not flow automatically – it is incumbent on us as responsible stewards of capital to ensure that the long-term returns associated with the transition also mitigate structural inequality where appropriate.

The concept of climate-stranded assets can provide a useful analogy. Climate-stranded assets are 'generally defined as any assets that suffer unanticipated or premature write-downs, devaluations, or conversions to liabilities due to climate-change-related impacts.'[46] Examples include energy sector assets such as coal, oil and gas reserves, and financial sector asset write-downs due to changing market conditions in the energy sector. Just as physical assets, equity and debt fuel productivity and returns, they rely on workers, communities and a social licence to operate. If the transition plans undertaken by these sectors systematically leave workers and communities 'stranded', it could have distributional impacts on the market and our portfolios.

We concede that we are early in our understanding of the financial implications of 'climate-stranded workers' and 'climate-stranded communities', and we seek to evolve our climate and equality-related research to help identify and potentially mitigate these risks. At minimum, the erosion of social cohesion and trust caused by the absence of a 'Just' approach poses a risk for companies' social licence to operate. As noted above, transition plans that are perceived to be unjust may face substantial opposition.

Today, most of our past and planned Just Transition (JT) work lies in corporate engagement as part of our broader climate engagement efforts (see our Net Zero roadmap for details on these engagements) to ensure that companies' approaches to decarbonisation appropriately mitigate associated social risks.

We are active participant in Climate Action 100+, an investor-led collaborative engagement initiative to ensure the world's largest corporate GHG emitters take necessary action on climate change. In addition to alignment indicators, CA 100+'s Net Zero Company Benchmark includes two Just Transition disclosure indicators: a commitment to the principles of a Just Transition; and disclosure of how the company is planning for and monitoring progress towards a Just Transition.[47]

Our JT engagement builds on these indicators by seeking from companies a formal assessment and analysis of the impacts, risks and opportunities of their transition plan on potentially impacted stakeholder groups. These include assessment of risks and opportunities for workers; potential differences in impact across jurisdictions; skills and training required for its workforce; impact on value chain; impact on communities.

44. ADOPTION OF THE PARIS AGREEMENT - Paris Agreement text English (unfccc.int)
45. Climate change and the just transition: a guide for investor action
46. Considerations for climate stranded assets
47. Net Zero Company Benchmark | Climate Action 100+

Box 4: Engagement drives a responsible transition plan for closing Australia's oldest coal-fired power station

BNPP AM has been engaging with CLP Group, one of the largest investor-owned power businesses in Asia-Pacific, through the Asia Investor Group on Climate Change's Asia Utilities Engagement Program as a co-lead for several years. In their Climate Vision 2050 plan, CLP outlined their commitment to limit global warming to 1.5°C, including recently updated emissions intensity targets in 2023. We have actively engaged with the company on best practices, securing a commitment to seek a Just Transition, and striking a balance between financial sustainability and environmental best practices and social responsibility while taking into account market needs and regulatory changes.

In 2021, CLP subsidiary EnergyAustralia committed to accelerating the closure of the Yallourn power station and brown coal mine, Australia's oldest coal-fired power station. While this closure in mid-2028 is estimated to reduce the company's Scope 1 emissions by more than 60%, it also poses risks to workers and the local community. The power station and mine, which have helped power Australia's Victoria state for over a century, is maintained by a highly-skilled workforce of over 500 permanent employees, with workforce numbers increasing up to 1 000 during major maintenance activities. In 2022, EnergyAustralia launched an AUD 10 million Yallourn Transition Program, providing tailored support to help the workforce plan, prepare and reskill for the future beyond Yallourn. Moreover, a partnership with a local offshore wind farm was established to enable redeployment of employees whose skills may be transferable to wind farms and continuous engagement with the workforce and communities impacted by the closure is underway through regular forums and meetings. The company has also committed to working with the newly-formed Australian Net Zero Economy Authority on Just Transition best practices.[48]

This type of tangible action demonstrates that Just Transition is not merely theoretical; it is a practical imperative for financing the energy transition. By embracing this ethos, we can help create the opportunity for economic prosperity to align with social equity and environmental stewardship.

Finally, we are committed to building industry knowledge and shaping views through our active participation in industry working groups. For example, we joined the Just Transition working group of Association Française de la Gestion financière (AFG), a French investment management industry group, to advise investors on best practices for JT frameworks and applications to regulations.

We also address JT themes at the BNP Paribas level. Read our BNP Perspectives special edition: Just Transition Observatory here.

48. Energy-Australia_Climate-Transition-Action-Plan_2023

PILLAR 2 – RESPONSIBLE BUSINESS CONDUCT (RBC)

▷ **Focus area #2:** Conduct internal deep dives covering norms-based frameworks and their evolving applications; enhance our approach on adherence to these frameworks in our investment process.

We believe we have a constructive role to play to help companies transition their business models onto a more sustainable path. But we do also exclude companies from our actively managed portfolios where we believe the company's behaviour or business model poses unacceptably high risks to investors, society or the environment.

We view our Responsible Business Conduct (RBC) policy as an enhanced risk management tool that can help avoid reputational, regulatory and stranded-asset risk. Company and industry exclusions are one of the oldest – and most debated – elements of sustainable investment. Some argue that divestment is the only answer, while others argue that it is only a form of 'passing the buck' to another investor. Although we view RBC exclusions as a last resort, we do believe they are important, as they:

- Uphold international norms as standards for corporate behaviour and incentivise compliance with them, identifying lines that must not be crossed; and
- Protect our portfolios from a wide variety of risks, including asset stranding, stemming from corruption, human rights violations and environmental degradation.

In addition to detailed sectoral policies set at the BNP Paribas Group level, we use international normative frameworks to evaluate and potentially exclude the worst actors (see Figure 8).

Figure 8: Our Responsible Business Conduct (RBC) standards and governing principles

The UN Global Compact (UNGC) is a principles-based framework developed by the UN to help businesses adopt sustainable and socially responsible policies. Since launching in 2000, the UNGC has grown from a group of 44 businesses to the largest corporate sustainability initiative in the world, including over 24 000 companies and non-business stakeholders from 167 countries.[49] The 10 principles of the UNGC are derived from international frameworks (e.g., the Universal Declaration of Human Rights, the UN Convention Against Corruption) and are one of the most widely accepted benchmarks used by investors to mitigate social risks.[50] In particular, the principles related to Human Rights, Labour Standards and Anti-Corruption support a holistic approach for reducing inequality risk.

We aim to uphold the UNGC principles as the floor below which it is unsafe for businesses to operate. However, it is the explicit ambition of the UNGC to "take participants beyond the minimum, and onto a journey of demonstrated continuous improvement" and "raise expectations of how businesses will embed all ten principles."[51] As companies' adherence to UNGC principles evolves, so too will our understanding and interpretation of them.

A key aspect of our RBC policy is tracking the existence and severity of norms-based controversies. We use a data provider that tracks compliance with the UN Guiding Principles (UNGPs). This provides more detailed guidance on how companies should implement their responsibility to respect human rights, including the development of human rights due diligence procedures and effective grievance mechanisms. The final framework we use in our RBC is the OECD Guidelines for Multinational Enterprises (MNEs) – recommendations on responsible business conduct jointly addressed by governments to MNEs operating in or from 51 adhering countries. The guidelines cover a range of social and environmental impacts, many of which relate directly to drivers of structural inequality, including disclosures, human rights and taxation.

PILLAR 3 – ESG INTEGRATION

▷ **Focus area #3:** Integrate new social data to enhance our existing social performance assessments in our investment and engagement processes; incorporate enhanced social indicators into our proprietary ESG Scoring Model.

We believe analysing investments using ESG criteria can help us account for a wider set of risks and opportunities. It can also help us better understand the role companies play in driving systemic risks such as structural inequality. In this context, we believe we make better investment decisions by identifying and sourcing relevant ESG data and integrating it into relevant investment analyses and decisions.[52]

Social data: The next frontier of sustainability data

With the launch of our Equality strategy, we set an overarching goal to increase the integration of equality considerations into relevant investment processes. To do so consistently and clearly, we need better social data that helps explain corporate contributions to structural inequality in a holistic manner.

However, corporate social data today does not fully meet this need. Most social data currently available relates to policy or programme practices of companies rather than their performance (e.g., diversity of staff, turnover rate, lost time incident rate (LTIR)). While policy and programme indicators are important, we prefer performance measures which allow tracking of progress against company commitments and are more indicative of real-world impacts on companies. This is in keeping with research which indicates that ESG ratings – many of which include a large emphasis on policy and programme indicators or company commitments – may not correlate with realised company performance on environmental or social outcomes.[53]

In our own ESG Scoring Model *(see below)*, the social pillar currently skews towards programme or policy-related metrics in deference to readily available data. Our aim is to evolve our scoring model over time to include a larger emphasis on performance-based metrics.

49. Homepage | UN Global Compact
50. NGC-Strategy-Extension_2024-25.pdf (ungc-communications-assets.s3.amazonaws.com)
51. Ibid.
52. f25fbc8f-d674-419f-93ca-78f1fa3a3ca5 (bnpparibas-am.com)
53. Bams, Dennis and van der Kroft, Bram, Tilting the Wrong Firms? How Inflated ESG Ratings Negate Socially Responsible Investing under Information Asymmetries (February 14, 2024). Available at SSRN: https://ssrn.com/abstract=4126986

At the same time, much of today's social data limitations are due to a patchwork of regulatory and disclosure frameworks. For example, information about the gender or ethnic split of employees is sometimes not publicly disclosed, even though these indicators are a key factor in assessing corporate progress in addressing systemic issues like the 'pregnancy penalty'[54] or discrimination in their own workforce. This information is crucial for explaining workforce diversity, which can be a strong indicator of company outperformance as referenced above *(see:* Investors should prioritise inequality*)*.

However, while consistent and clear regulatory guidelines are crucial for the development of social data, we cannot simply 'wait and see'. We must be proactive and use innovative new techniques to fill the gaps in today's data ecosystem. We already incorporate significant social considerations in our ESG and SDG scoring frameworks. These provide us with a strong foundation for building a more holistic approach to addressing inequality in our investments. To further enhance this, we aim to integrate new social data that plugs data gaps to better inform our analysis of individual companies and assessment of progress within our portfolios.

With the adoption of our Global Sustainability Strategy in 2019, we put ESG integration at the heart of our investment processes. This has had a significant impact on our Equality journey by compelling the consideration of ESG characteristics across our investment strategies. We begin this section by sharing insights into our ESG Integration approach and the social criteria used across our sustainability methodologies.

Social issues are a key consideration across our investments, enabled partly by the adoption of our ESG Integration Guidelines, which stipulate the following:[55]

- **ESG scoring:** We avoid investing in a publicly listed entity without an ESG score, performing qualitative ESG analysis in the absence of a quantitative ESG rating.
- **Better-than-Benchmark:** We aim to hold portfolios with more positive ESG characteristics than their respective (invested) benchmarks.
- **Weakly-rated entity:** We will avoid investing in a weakly-rated entity (in active portfolios) without documenting the risks and/or engaging or planning to actively engage in the near future.

These guidelines have played an important role in improving the overall ESG profile of our portfolios. To underpin the implementation of our ESG integration approach, we developed two proprietary ESG scoring frameworks: one for corporates (which now covers approximately 13 000 corporate issuers globally) and one for sovereigns. Those rating frameworks place strong emphasis on the equality theme within the 'Social' pillar.

Corporates: Social issues within our ESG scoring framework

Social issues are a core component of our scoring model. On average we use 11 social metrics for each sector among the 61 social metrics available across sectors[56] *(see Figure 9)*.

Figure 9: ESG Scoring Model for corporates – Social pillar themes and metrics[57]

Our proprietary ESG scoring model is:

- **Comprehensive:** Covering ~13 000 issuers across 20 sectors and four geographic areas
- **Focused on materiality:** Using a limited number of material, insightful metrics for each sector
- **Investment insight-driven:** Built with and for investment professionals
- **Robust:** With a statistically rigorous model developed with our Quantitative Research Group
- **Dynamic and forward-looking:** Integrating unique insights through qualitative adjustments
- **Managed by the Sustainability Centre:** To ensure the integrity and consistency of the framework

54. Child Penalties Across Countries: Evidence and Explanations | NBER
55. More details are provided in our ESG Integration Guidelines: https://docfinder.bnpparibas-am.com/api/files/517E383E-5094-4908-A7CB-A0C0795C0288
56. The metrics in the model are selected by analysts with a view towards their materiality, quality and availability for each sector.
57. BNP Paribas Asset Management, December 2023

Theme	**Sample metrics** (Illustrative)
Human capital management	Diversity programmes, freedom of association policy, employee turnover rate
Health & safety	Lost time incident rate (LTIR) trend, health & safety management system, employee fatality rate
External stakeholders	Scope of social supplier standards, supply chain management, supply chain monitoring
External stakeholders	Scope of social supplier standards, supply chain management, supply chain monitoring
Social incidents	Controversies linked to social issues
Governance – social themed (1.5% weight in model on average)	Board gender diversity

We believe our ESG scoring methodology is a powerful tool to help investment teams understand multiple dimensions of company performance. Importantly, we have introduced an absolute 'tilt' in our primarily sector-relative ESG scoring system for controversies. As a result, sectors that are more prone to ESG controversies have slightly lower scores, reflecting increased risk ('headline', reputational or financial risk).

Sovereigns: Social issues within our ESG scoring framework

Our ESG scoring model for sovereigns provides an income-adjusted view on the ESG performance of a country and enables comparison of countries with different levels of economic development. ESG indicator weightings are calculated to reflect their relevance for a given country. The relevance of ESG issues depends on a country's development level. For example, access to energy is crucial for developing countries, while energy access is already largely provided across developed countries. Therefore, five sets of weightings are calculated, for the five income groups determined by the World Bank's countries classification by income level: High Income OECD, High Income non-OECD, Upper middle income, Lower middle income and Low income.

Our ESG score for sovereign debt includes a 33% weighting for social factors, across 12 themes and 115 metrics. Some of the metrics used in the model are listed below (see Figure 10).

Figure 10: ESG Scoring Model for sovereigns – Social pillar themes and metrics

Theme	**Sample metrics** (Illustrative)
Diversity	Female share of employment in senior and middle management
Economic inequality	Gini index, inequality-adjusted Human Development Index (HDI)
Education	Government expenditure on education, progression to secondary school
Employment	Long-term unemployment, unemployment with intermediate education
Labour & social protection	Children in employment, old-age-pension adjusted HDI
Vulnerability	Population living in areas where elevation is below 5 metres, percentage of refugee pop. by country or territory of origin

Our 'SDG Fundamentals' Framework calculates social revenue alignment

The UN SDGs are one of the only widely adopted global sustainability frameworks that encompass both environmental and social topics, including a specific focus on Reduced Inequalities (Goal 10). In collaboration with Matter, a sustainability data company, we developed **SDG Fundamentals**, a proprietary framework to measure SDG alignment for our corporate issuers. SDG Fundamentals enables investors to understand how their portfolios align or misalign with the SDGs and their targets by analysing the revenue issuers generate through their products and services. The dataset provides alignment and misalignment figures across: a) all 17 SDGs, enabling netted alignment figures across all SDGs for those investors that choose to do so; b) at individual SDG level (e.g., SDG 3); and c) at the 169 SDG targets level (e.g., SDG 3.3), for both single entities and portfolios.

This SDG model is a central pillar of our Sustainable Investment methodology under SFDR *(see: Social Assessments of SFDR)* and is used to inform thematic alignment of holdings for some labelled funds in our product suite.

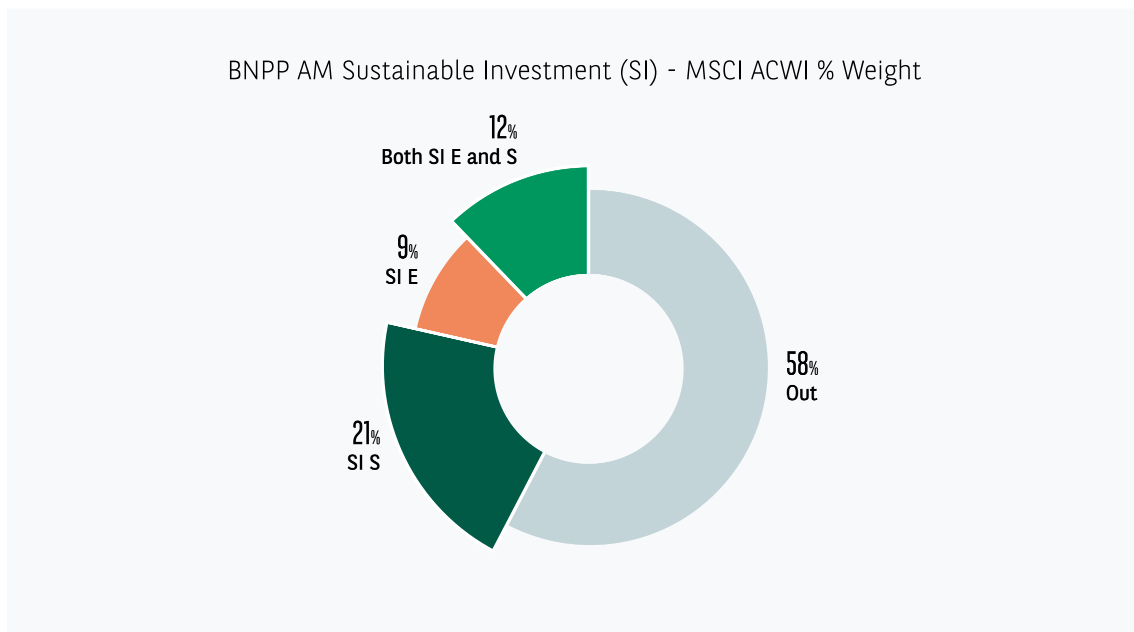
Sustainable Investment (SI): Social considerations within our SI definition

Under the EU's Sustainable Finance Disclosures Regulation (SFDR), asset managers like BNPP AM are required to define what constitutes a 'Sustainable Investment' (SI) and to set thresholds for minimum exposure to such investments in 'Article 8' (funds promoting environmental and/or social characteristics) and 'Article 9' (products that have an SI objective) portfolios. Our SI definition encompasses a wide range of factors and is intended to offer a holistic view of what might constitute a sustainable company, looking at both environmental and social factors.

On the social side, issuers may qualify as SI via the SDG pathway, via our 'S' pillar pathway or via our sustainable bonds pathway (see Social Bonds section below). Within our SDG modelling approach, company revenues are assessed for alignment with the 169 SDG targets. These targets consider either environmental or social dimensions of sustainable development.

Our mechanisms for social leader identification are important for building a comprehensive universe of issuers contributing to positive sustainability outcomes (especially considering that the proposed 'EU Social Taxonomy' remains unfinished). These social assessments are a key distinguishing factor of our SI definition. As results of our dataset for the MSCI ACWI / across our AUMs show (Figure 11), the contribution of socially aligned Sustainable Investments to our SI universe is higher than the contribution of environmentally aligned SIs.

Figure 11: Our Sustainable Investments linked to Social objectives[58]



58. BNP Paribas Asset Management, May 2024

Box 5: Social assessments of SFDR 'Principal Adverse Impacts' support our framework for action

The EU's SFDR requires market participants and financial advisors to publicly disclose their 'Principal Adverse Impacts' (PAIs) – the negative effects that investment decisions or advice could have on sustainability factors, including environmental, social and employee concerns, respect for human rights, anti-corruption, and anti-bribery matters. For investors, this disclosure is made at both the entity (Article 4) and product level (Article 7).

For investments in companies, as of 2023 there are 14 mandatory PAIs, four of which directly relate to corporate actions in our framework for action, as shown below. We also illustrate BNPP AM France and BNPP AM Luxembourg performance against these indicators (as per year end, 2022). More information is available in our PAI Statement here.

BNPP AM framework corporate action	PAI indicator	PAI results / coverage (2022[59])		Commentary
		BNPP AM France	BNPP AM Luxembourg	
Labour standards & working conditions	**PAI 10** Violations of UNGC principles and OECD MNE guidelines	*Share of investments in investee companies involved in violations*		Our ESG model includes indicators related to UNGC and OECD guidelines
		0.05%[60]	**0.08%[61]**	
Human rights due diligence	**PAI 11** Lack of compliance mechanisms to monitor compliance with UNGC principles and OECD guidelines for MNEs	*Share of investments in investee companies without compliance mechanisms*		For PAIs 10 and 11, there is wide variance across available data vendors due to varying assessments and interpretations of the PAIs as described and the associated guidelines
		42%[62]	**49%[63]**	
Wages & compensation	**PAI 12** Unadjusted gender pay gap	*Average unadjusted gender pay gap of investee companies:*		Very low coverage reflects limited and inconsistent disclosure[64]
		5%	**5%**	
Board composition	**PAI 13** Board gender diversity	*Average % of female board members in investee companies[65]*		This criterion is embedded in our ESG scoring methodology. We announce board gender diversity targets annually (in the context of our stewardship activity)
		39%	**36%**	

Finally, in addition to the above general frameworks for ESG integration we have also developed several product-specific methodologies e.g., for our Social Bonds fund and our Inclusive Growth fund. *(See Pillar 5:* Sustainability in our Product Range *for details on the methodologies for these funds).*

59. BNP Paribas Asset Management, December 2022
60. Note the rebased value for this indicator is: 0.07%. 'Rebased' values correspond to values for which we have only taken into consideration issuers/instruments with available data, and issuer/instruments without available data ('NULL') have not been taken into consideration. The non-zero figure here can be explained by the non-application of our RBC policies in some specific client mandates and/or the inclusion of a handful of issuers which can be considered to be in violation of the UNGC and OECD MNEs guidelines by our provider for this PAI but with which we are conducting active engagement aimed at improving company behaviour.
61. Note the rebased value for this indicator is: 0.10%. See footnote 53 for definition of 'rebased'.
62. Note the rebased value for this indicator is: 67%. See footnote 53 for definition of 'rebased'.
63. Note the rebased value for this indicator is: 76%. See footnote 53 for definition of 'rebased'.
64. For our reporting, we rely on reported figures which are strictly consistent with the regulatory definition and do not use proxy values
65. Note the indicator measures 'Average ratio of female to male board members'.

PILLAR 4 – STEWARDSHIP (VOTING, ENGAGEMENT, PUBLIC POLICY ADVOCACY)

- ▷ **Focus area #4:** Continue addressing inequality drivers through our proxy votes on issues such as board composition and executive compensation. Explore expanding our voting policy to address other aspects of inequality.
- ▷ **Focus area #5:** Support shareholder proposals designed to reduce corporate contributions to inequality and/or strengthen equality practices. Explore submitting shareholder proposals on inequality-related topics, where warranted.
- ▷ **Focus area #6:** Expand our engagements on equality priorities tailored according to regional contexts, both directly with issuers as well as through ongoing collaborative initiatives; explore joining new relevant initiatives.
- ▷ **Focus area #7:** Seek new opportunities to influence institutions and policies to drive opportunities that will improve inequality outcomes, such as through the development of social taxonomies, disclosure frameworks and related industry initiatives.

Stewardship is both an opportunity and an obligation. As long-term investors, we believe we should use the tools of stewardship *(see Figure 12 below)* to shift companies, governments and markets towards better outcomes, including greater equality in our societies.

Figure 12: The stewardship toolkit

Voting	Engagement	Public policy advocacy
We exercise our rights and responsibilities by making considered voting decisions in line with our policy. Voting is core to discharging our fiduciary duty. It drives better corporate governance and sustainability practices.	We use informed engagement with equity and bond issuers to improve their performance on governance and sustainability. Engagement in turn informs our votes and influences issuers' eligibility for investment and ESG ratings. It is also designed to counter global systemic risks and market failures.	We actively engage with regulators and policymakers to help shape the markets in which we invest and the rules that guide and govern company behaviour.

Below, we describe how we use Voting, Engagement and Public Policy Advocacy to address inequality using our framework for action, by seeking to understand and influence corporate actions across business operations, corporate governance & business ethics, and products & services.

Voting

Our Stewardship Policy, and the 2024 Governance and Voting Policy that is a component of it, describe our expectations of the public companies in which we invest and act as a guiding framework by which we uphold our ownership responsibilities.

Good corporate governance creates the framework that ensures that a corporation is managed in the long-term interest of all its key stakeholders, not only its shareholders. Thus, our efforts to address inequality are grounded in the notion that good corporate governance fosters equality and balance.

One philosophical obstacle to reducing corporate contributions to inequality is the notion held by some that corporations are obligated to put their shareholders first, in all things. **This notion of shareholder primacy tends to promote decision-making designed to benefit investors in the short run, but, ironically, can harm investors over the longer term, by contributing to systemic risk.** Two classic examples are subsistence wages in corporate supply chains and corporate tax avoidance. While low wages or avoided taxes may immediately benefit shareholders, such short-sighted practices can contribute to economic and systemic instability, eroding the systems we depend upon to generate long-term value. Long-term investors are thus motivated to consider this wider perspective and engage with companies and policymakers on related issues accordingly.

Every year, investors in public companies are presented with numerous opportunities to address inequality, through proxy voting. We use our votes to address inequality through two key aspects of corporate governance: Board composition and executive compensation.

Figure 13: Our voting policy and record on corporate governance actions that can impact inequality

Framework corporate action	Topic	Our policy	Our record
	We will vote against a Board candidate if the candidate:		
Board composition	Gender equality	• Is not a woman, and: • Less than 35% of directors are female (for Europe, North America, AU, NZ, SA), or • Less than 20% of directors are female (for the other markets)[66]	Women hold, on average, 29% of the board seats at companies in which BNPP AM invests, compared with an average of 22% for companies in the ISS database[67]
	Race / ethnic equality	• Is a member of the nomination committee and the Board has no apparent racially or ethnically diverse composition (for North America, UK/IE)	
	Employee representation	• We generally support votes for employee shareholder representatives in relevant markets (e.g., France) as long as our other thresholds for gender diversity and board independence are met for the whole board	From 2025, we will expect 40% of board seats to be held by women (for Europe, North America, AU, NZ, SA)
	We will vote against an executive renumeration policy if:		
Executive compensation	'Excessive' pay	• The remuneration scheme is disproportionate with regard to the evolution of its median employee's remuneration, NEOs, or its relevant peer group	50% of executive compensation resolutions opposed in 2023[68]
	ESG characteristics	• The company has not included any environmental or social performance criteria within either the short or long-term component of executive variable remuneration[69] • The company has not included any climate-related criteria[70], which are measurable and quantifiable, within either the short or long-term component of executive variable remuneration[71]	

66. Exceptions can be applied if the percentage of women is below the threshold (between 20-35% for Europe, N. America, Australia, New Zealand and South Africa or 10-20% for other markets), in which case we may support male directors, if the company has made important improvements or, in cases where the board is small (8 directors maximum), or where the company is a new IPO; a racially/ethnically diverse board (for North America and UK/Ireland) if there is a commitment to reach our threshold within a short time, or the CEO or Chair is a woman.
67. BNP Paribas Asset Management, December 2023, more details here: BNP Paribas Asset Management study shows steady growth in female board membership despite regional disparities (bnpparibas-am.com).
68. BNP Paribas Asset Management, December 2023.
69. In the case of small and mid-caps, such requirement shall be reviewed on a case-by-case basis.
70. For 2024 for climate priority sector: Energy, utilities, industrials and materials sectors and/or for companies identified as world's largest GHG emitters, based on the scope of Climate Action 100+. Link: Companies | Climate Action 100+. Applicable for 2026 for all sectors.
71. In the case of small and mid-caps, such requirement shall be reviewed on a case-by-case basis.

Board composition: Although publicly traded corporations are theoretically meritocracies, their highest governing bodies, boards of directors, have been historically dominated by a minority of the global employee and consumer base, namely, men. Whether the result of outright discrimination or a byproduct of societies that have an unequal distribution of advanced degrees and professional training, this is inconsistent with the inclusive nature of our modern globalised economies, and inconsistent with a system that should be promoting the best and brightest. Moreover, our support for greater female representation on corporate boards is consistent with an EU Directive that will require all large publicly listed companies in the EU to have 40% of their non-executive directors or 33% of their total directors to be filled by the underrepresented gender, by 2026. (Read more about how we use our voting policy and engagement to improve gender equality in our sustainability report here).

Executive compensation: Perhaps our most direct impact on corporate drivers of wealth inequality comes in the form of annual votes to approve, or ratify, executive compensation packages. We apply a range of factors in our analysis of executive compensation, including whether the plan is sufficiently performance-based and challenging, long-term oriented, and adequately disclosed. We also look to how the CEO's pay compares to that of his/her peers and the alignment between the pay level and financial performance and have rejected many plans we deem to be excessive. For large companies, we require that some portion of pay be tied to environmental or social performance conditions. Overall, our opposition rate of 50% (2023) sets us apart from our peers.

In certain key markets, including France, the UK and the US, companies must disclose the ratio between the CEO's and median worker's pay. Although this pay-ratio disclosure presents practical challenges for use as a voting criterion, it provides a tool to challenge companies on how their remuneration committee uses the data, and whether they have defined an 'excessive' pay ratio for their company. We can also pay attention to how pay ratios compare to those of peer companies, and how the ratio evolves from year to year. Further, our policy notes that we will consider how this ratio has changed over time and will oppose remuneration proposals that are disproportionate with regard to the evolution of its median employee's remuneration.

Social-themed shareholder proposals: Every year, we vote on proposals submitted by other shareholders, primarily in the US. Our principle is to vote in favour of shareholder proposals when they are in line with stakeholders' long-term interests and the action requested is warranted, taking into account the context and prevailing practices of the company and its industry. We abstain when we support the overall intent of the proposal, but do not believe it is appropriate given the company's specific circumstances or if the proposal's request has already been implemented.

Many shareholder proposals seek to reduce inequality by promoting adherence to international human rights norms, improving benefits (such as the provision of paid sick leave, a critical gap in the social safety net in the US), seeking racial equity audits, gender pay gap analyses, or country-by-country tax reporting, among many other issues. We have a very strong record of support for shareholder proposals – and in particular social proposals. In 2023, we supported 94% of social proposals.[72]

Engagement

In addition to an extensive programme of corporate dialogue engagements to inform our voting decisions each year, we also engage on a range of inequality issues. The theme of inequality plays out differently in each market, depending upon local culture, custom and law. We therefore use a set of consistent global principles that we apply in ways that are calibrated to key differences within each market. This may mean a greater emphasis on a particular issue, or a different approach to addressing that issue.

Below we detail select engagement focus topics organised by business functions and key corporate actions from our framework.

Business operations

Focus topic: Forced labour, modern slavery, and human rights

Framework corporate actions: Labour standards & working conditions, human rights due diligence

Almost 50 million people today are living in modern slavery, and since 2016, an estimated 10 million people are subject to forced labour and forced marriage. Many of these victims are based in the Asia Pacific region, with an estimated 29 million victims of modern slavery.[73]

72. Social related proposals based on BNPP AM classification
73. 50 million people in modern slavery: UN report | United Nations

Forced labour and modern slavery is a systemic, endemic issue that interferes with the proper working of the market, in addition to being an egregious human rights violation and a theft of life. In addition, companies may be breaching the law in certain countries, either by using forced or slave labour in their operations or, within their supply chain if they lack a proper policy, monitoring and reporting system (e.g., UK, Australia). While we cannot realistically identify all instances of forced labour, we can engage with companies to advocate for effective solutions.

We do this by participating in collaborative engagement initiatives, including an Interfaith Center on Corporate Responsibility (ICCR)-coordinated engagement programme with **Know the Chain, Investors Against Slavery and Trafficking (IAST)** for the APAC region, and **PRI Advance.** These initiatives aim to tackle various issues. One example is the abuses experienced by migrant workers, who are particularly vulnerable. Many pay exorbitant recruitment fees to travel to a distant country where they don't speak the language for a job that is, in some cases, not as advertised. They can find themselves trapped in an unknown country, working to pay off debts to their recruitment agency. Our engagement has pressed companies to ensure they are aware of these issues and to adopt strong policies and procedures so that no workers in their supply chains ever has to pay for a job, that they receive contracts in their own language, and retain their passports. We also call on companies to require their suppliers to reimburse fees to workers and publish the amount reimbursed each year, as Apple has done for several years.

As referenced in the introduction, BNPP AM is an active participant in the recently launched PRI Advance, a collaborative stewardship platform on human rights and social issues. As members of the initiative's Signatory Advisory Committee, we provide guidance on the development and coordination of the initiative to support PRI's decision making. We also provide technical expertise, through the participation of our research team on the Critical Minerals working group and Mining sector-level engagement working group.

Digital services, including the internet and telecommunications technologies, have become critical platforms for economic and social engagement for billions of people. It is therefore critically important to apply a human rights lens to the information and communications technology (ICT) sector. For example, we are active members of the **Global Network Initiative** (GNI), a multi-stakeholder organisation dedicated to addressing threats to freedom of expression and privacy when governments seek to censor the internet, inappropriately seek information on users or shut down telecommunications networks during 'sensitive' events, such as elections. GNI has established a set of Principles and Implementation Guidelines, based on the UN Guiding Principles on Business and Human Rights, to guide company decision-making and uphold the rule of law. Corporate members of the GNI, which include some of the largest internet and telecommunications firms in the world, agree to adhere to the principles and to subject themselves to periodic independent assessments of their efforts to implement them. We currently serve as an alternate on the GNI board, representing the organisation's investor constituency.

Focus topic: Living wage:

Framework corporate action: Wages & compensation

One of the primary ways we can encourage corporations to mitigate inequality is to engage with companies to adopt a 'living wage' – the level of pay that enables workers and their families to meet their basic needs.74 The global Living Wage gap is estimated to be USD 6[74] billion a year;[75] closing the gap could generate an additional USD 4.56 trillion every year through increased productivity and spending, which equates to a more than 4% increase in annual GDP.[76] We have only recently begun to engage on Living Wage and are exploring collaborative initiatives on the topic.

74. Living Wage | UN Global Compact
75. Murray R. Hall and Sangwon Suh, "How Large Is the Global Living Wage Gap and the Price Increase Needed to Close It?," Socio-Economic Review 18, no. 2 (April 1, 2020): 555–74, https://doi.org/10.1093/ser/mwy040
76. Evidence from Harvard Business School (Emanuel & Harrington 2020) showed an elasticity between wage increase and productivity of 1.1–1.2. BCTI used the previous estimates of # employees earning below the living wage to calculate the cost of closing the living wage (USD 1.89 trillion) and the gain in productivity (using the 1.1–1.2 multiplier). The increased spending is based on a multiplier of 1.21 from the Economic Policy Institute for the US (2013). Together, the gain of productivity and increased spending equals USD 4.56 trillion. This model is built on high-level data and estimates which contain important uncertainties, meaning that the results are directionally correct only. Further research on countries, sectors, and employment per skill level will need to be done to derive the exact change of productivity and spending to be expected, as it can vary a lot according to those factors.

Focus topic: Union neutrality

Framework corporate actions: Freedom of association

Corporations are hierarchical entities, with an implicit unequal balance of power between rank-and-file employees and senior executives. Therefore, union rights, including the right to bargain collectively for the terms of e mployment, are considered fundamental labour rights by the International Labour Organization (ILO). By addressing this inherent imbalance of power, unions provide employees with the opportunity to address a host of other rights, including the right to a safe workplace, free from discrimination.

Although widely accepted in Europe, it is illegal to form an independent union in certain markets and, in others, including the US, local law may not be fully consistent with the spirit of the ILO Conventions. US companies spend millions per year to oppose union-organising efforts, often in violation of US law, but with relatively few negative consequences. Partially because of corporate opposition to unions, American workers are exposed to a host of risks that their European counterparts do not face. This has also contributed to lengthy periods of wage stagnation in the US, which can depress aggregate demand and result in sub-optimal economic results.

It is not the role of investors to determine whether a workforce should or should not be unionised – that decision rests with the workers themselves – but we can and do aim to play a constructive role through engagement to help to ensure that the conditions are in place to allow workers to exercise their right to choose, free of intimidation and harassment. When a company's workforce is unionised, we can expect other difficult-to-manage issues – such as discrimination, sexual harassment, safety, inadequate wages and benefits, and even Just Transition issues, as we have seen from the UAW negotiations in the US – to be more likely to be addressed without the need for investor intervention.

Unions can also help to mitigate a range of human rights abuses commonly found in corporate global supply chains. Companies should work with local unions to understand local labour conditions and help to address issues as they arise with suppliers. In regions where independent unions are illegal, companies should ensure that democratically elected worker committees are in place and that their views are understood and actively addressed.

Corporate governance & business ethics

Focus topic: Corporate tax and political lobbying

Framework corporate actions: Tax practices, political lobbying

Companies employ a range of strategies to reduce their tax payments, including some that are illegal (tax evasion), some that are arguably unethical (tax avoidance) and others that are merely misunderstood due to the complexities of multinational financial structures. Investors need better information on corporate tax strategies, including country-by-country reporting, to allow us to distinguish between these categories, anticipate potential regulatory action, and promote economic development by discouraging unethical practices. We are a member of the **PRI Tax Reference Group**, a group of investors that meets on a regular basis to share learning and explore opportunities for collaboration, and we have consistently supported shareholder proposals in the US, calling on companies to adopt the Global Reporting Initiative's (GRI) tax reporting standard.

Corporate lobbying can be the proverbial grease that keeps the inequality wheel spinning. We committed in our GSS to work to drive more transparent and responsible corporate lobbying practices. To date, our work has focused on climate lobbying, in addition to consistent support for shareholder proposals seeking greater lobbying transparency. New initiatives are emerging to replicate this approach to address social issues. For example, we are following with interest the development of the newly emerging Social InfluenceMap being developed by the EIRIS Foundation.

Products & services

Focus topic: Health equity

Framework corporate actions: Access and affordability and externalities of products & services

Wealth and health outcomes are inextricably linked.[77, 78] This is particularly true in countries where healthcare is not universally provided. For example, in the US, 66% of all personal bankruptcies were related to healthcare expenses.[79] Plugging gaps in healthcare systems may support reduction

77. Economic Dimensions of Health Inequities: The Role of Implementation Research - PMC (nih.gov)
78. Trends in Health Equity in the United States by Race/Ethnicity, Sex, and Income, 1993-2017 | Public Health | JAMA Network Open | JAMA Network

of economic and wellbeing inequality. Various social determinants of health – including healthy food access/affordability, proximity to toxic sites, and access to clean water – are increasingly recognised as important to health outcomes, are shaped by national-to-local policy environments, and most often correlate with income levels.

For several years we have sought to redress unequal access both to healthy foods and medicines through two collaborative engagement initiatives. To improve access to healthy foods, we work with the **Access to Nutrition Initiative (ATNI)** which produces regular indices that rate, among other things, the performance of the world's largest food and beverage manufacturers in improving the affordability and accessibility of healthy foods. We sit on the ATNI Expert Group, are signatories to the Investor Expectations on Nutrition, Diets and Health and belong to the ATNI Investors in Nutrition and Health, which has 90 members with USD 20 trillion in AUM.[80]

We have also engaged with healthcare companies through the tools provided by the Access to Medicine Foundation, which include **Access to Medicine Indexes (ATMI)** and research. ATMI focuses heavily on addressing neglected diseases in low-income countries, aiming to ensure that pharmaceutical companies make drugs more widely available and affordable in those markets. We will continue to engage through these initiatives and consider joining others that emerge that help us to reduce health inequalities. Other sectors also face challenges in relation to providing inclusive product and service offerings. One such example is the information and communication technology (ICT) sector, which has a lot to do to provide global digital inclusion.

Sovereign engagement: We seek to engage with issuers of social and sustainability bonds in both developed and developing markets, as well as with multilateral agencies. We engage on a one-to-one basis and join roadshows where issuers present to multiple investors at the same time. These thematic bond engagements take place both at issuance stage as well as 12 – 24 months after bond issuance to find out about reporting commitments and the timeline for an impact report publication. If there is no report from issuers, we exclude their Green, Social, and Sustainability (GSS) bonds from the investment universe.

Engagement with social bond issuers is key to not only achieving and improving the benefits of social bonds, but also protecting clients' investments from the potential risk of 'reputational washing'. We focus on two types of engagements:

- **At-issuance engagement:** We focus on 1) an issuer's sustainability credentials and integrity, 2) the type of project, and 3) the bond's proposed ambition, expected allocation and implementation. A project's limited expected social benefits, a weak issuer ESG rating or unsatisfactory engagement feedback may result in a negative rating.
- **After-investment engagement:** We focus on output and impact indicators and the actual project allocation. If the issuer fails to provide a satisfactory explanation for not providing impact indicators, we may give the bond a negative rating.

During 2023, the sustainable finance market saw some sovereign issuers bringing new thematic bonds to the market and some sovereigns issue them for the first time. We engaged with a European Sovereign on its inaugural sustainability bond issuance and the ex-ante analysis of the expected allocation, with the social use of proceeds being the focus. The new issuance targeted an 84% allocation towards socioeconomic advancement and empowerment, and one of the examples used was a female entrepreneurship scheme. Positively, most of the issuance is expected to be allocated towards new financing as opposed to refinancing existing debt.

Public policy advocacy

BNPP AM has a long-standing commitment to policy advocacy to advance our sustainability goals, contribute to a well-functioning financial system and mitigate systemic risks. We believe that helping to shape legal frameworks, regulation, standards and guidance relating to sustainable finance and sustainability issues is integral to the fulfilment of our fiduciary duties to our clients. Such issues, including climate change, nature loss and inequality, have serious implications for the real economy. Among the principles that guide our public policy advocacy globally, "We support strong legal protection for the environment, consumers and workers, and will engage on these issues where we see a connection to our interests as investors."[81]

79. Medical Bankruptcy: Still Common Despite the Affordable Care Act - PMC (nih.gov)
80. Our work with investors – Access to Nutrition
81. BNPP AM Stewardship Policy 2024

With respect to equality, our overarching policy advocacy goal is to promote a more equitable and sustainable distribution of economic value to ensure the long-term stability and resilience of societies and ecosystems. Part and parcel of this agenda is supporting policy measures that give full effect to the Universal Declaration of Human Rights, including all ILO Conventions.

We support public policy changes that:

- Promote greater diversity on corporate boards
- Require mandatory reporting on CEO-employee pay ratio and gender pay gap
- Enhance corporate tax transparency and require country-by-country mandatory tax reporting across sectors
- Drive more transparent and responsible corporate lobbying practices
- Improve supply chain transparency and labour conditions
- Facilitate a Just Transition at regional, national and international levels within 2050 net-zero strategies
- Introduce a social taxonomy to mirror environmental taxonomy architecture for social matters

As opportunities arise, in line with our approach to public policy advocacy set out in our Stewardship Policy, we will extend our existing climate and nature-related public policy engagement to the Equality agenda (for example Just Transition and in relation to food sector issues and deforestation). In doing so, we will seek to shape the development of social taxonomies and other relevant policy initiatives.

PILLAR 5 – SUSTAINABILITY IN OUR PRODUCT RANGE

▷ **Focus area #8:** Improve existing equality and social-themed investment strategies by strengthening underlying social indicators and models; increase our social and equality-themed investments.

Market overview

At the end of 2023, the social thematic funds universe[82] included total assets of approximately EUR 14 billion. Yet, many of these funds were launched years ago, new launches are rare, and fund sizes are often relatively small (below EUR 100 million[83]) and attract modest inflows.

We believe this presents an unprecedented opportunity to generate long-term, risk-adjusted returns while strengthening equality in our societies and in our investees. As detailed in the introduction, research points to potential outperformance of companies with strong equality practices across sectors. It also highlights the opportunity set for closing the living wage gap, improving gender parity, and upskilling workers. Such opportunities could generate enormous returns for savvy investors who identify the companies leading these efforts.

Social and sustainability bonds are use-of-proceeds instruments used to finance social impact projects. They are also a good example of how data quality, transparency and clear impact measurement indicators can contribute to a rapid market growth. Social and sustainability bond funds represent the most recent – and fastest growing – segment of the social thematic fund universe. Several social thematic funds choose to allocate capital to companies implementing the best social and governance practices that contribute to creating and maintaining safe, equal and inclusive working environments for their employees (e.g., safety at work, equal pay, equal opportunity recruitment, training & career development, etc.).

Our existing solutions

We provide our clients with products specifically focused on addressing equality issues, and we will continue to develop our investment range in line with this theme. Today, we offer the following investment solutions across asset classes.

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82. There is no common definition of the social thematic fund universe; therefore, it can be relatively broad or narrow depending on the definition used by different market data providers. For the purpose of this paper, we used Broadridge database to build the universe of investment funds addressing social issues (gender equality, diversity & inclusion, employment, education, human capital, etc.) two categories of funds were included: 1) equities theme social/solidarity funds; 2) funds investing in use-of-proceeds bonds (social bonds, sustainability bonds).

83. There is no common definition of the social thematic fund universe; therefore, it can be relatively broad or narrow depending on the definition used by different market data providers. For the purpose of this paper, we used Broadridge database to build the universe of investment funds addressing social issues (gender equality, diversity & inclusion, employment, education, human capital, etc.) two categories of funds were included: 1) equities theme social/solidarity funds; 2) funds investing in use-of-proceeds bonds (social bonds, sustainability bonds).

Equity

BNP Paribas Développement Humain strategy: The objective of this strategy is to invest in European companies whose activities contribute to current and emerging global social challenges. These include population growth, food security, ageing population, urbanisation, public health & sustainable socio-economic development. The companies must generate at least 20% of their turnover in one or more of the following six sub-themes: healthcare & wellness, sustainable cities & communities, food challenge, education & information, sustainable resources & inclusive economic growth. (Read more in our 2023 Extra Financial Report here).

BNP Paribas Funds Inclusive Growth strategy: This global equity strategy invests in companies that implement best practices that contribute to inclusive growth and help to strengthen equality in our societies. To construct the Inclusive Growth investment universe, we developed a proprietary scoring model derived from our ESG Scoring Model that is specifically designed to identify 'inclusive' companies. We identified five pillars of actions for companies to reduce inequalities and contribute to inclusive growth. We then translated these pillars into relevant common and sector specific ESG metrics, using a combination of internal and external data sources.

Figure 14: Our Inclusive Growth model pillars

Model weight	Inclusive growth Pillar	Underlying criteria
30%	• Decent work	▷ Work conditions ▷ Social dialogue ▷ Supply chain
20%	• Investing in social mobility	▷ Human capital management ▷ Work force & managers diversity
15%	• Access to quality & affordable products	▷ Clients and communities ▷ Sustainable Products & Services
20%	• Respecting business ethics	▷ Tax practices ▷ Compensation & ESG criteria in compensation ▷ Board diversity
15%	• Decarbonization	▷ Low carbon products, use of renewable energy ▷ Recycled Material, water management programs, emissions, ecodesign ▷ Environmental risk management

+ Controversies

- **Unique and innovative model:**
  - ▷ Sources data from different external sources
  - ▷ Statistically robust
  - ▷ 14 social metrics per sector on average
  - ▷ Prefers performance metrics over policy-related metrics
  - ▷ Integrates qualitative analysis from our Sustainability Centre
- **Inclusive Growth score from 0 to 100 for each company**
- **Companies with scores in best 1/3 considered for investment**
- **Investment universe truly focused on social thematic**

Inclusive Growth Investment Universe (~ 500 global companies)

On average, we used 14 social metrics, four governance metrics and four environmental metrics per sector. On top of that, we factored in the controversies for each pillar. The final Inclusive Growth score from 0 to 100 emphasises the predominance of the Social dimension giving it a 65% weight. Additionally, the construction of this Inclusive Growth score enabled us to shed light on the availability of 'S' data. Indeed, our ESG analysts and Portfolio Managers may engage with companies for which 'S' data is not available.

Fixed income

Social bonds – instruments where the proceeds are used to finance projects with positive social outcomes – have shown accelerated growth in recent years. In 2023, social bond sales totalled USD 135 billion, compared with USD 20 billion in 2019.[84] These use-of-proceeds bonds are typically issued by corporates, supranationals, central governments, agencies, local entities and local governments. Projects are categorised across six social themes that address inequality holistically: Socioeconomic advancement and empowerment, affordable basic infrastructure, access to essential services, affordable housing, employment generation, and food security and sustainable food system.

Based on our experience with green bonds, we believe three elements make a social bond credible:

- **Ambition:** This concerns the issuer's goal to contribute to social objectives and grow their activities to meet those objectives
- **Integrity:** This relates to an issuer's processes and management systems governing the use of proceeds, mitigation of potential risks, and measuring and reporting
- **Specificity:** This concerns the identification of specific target populations and the social gaps those populations face

We have developed a proprietary methodology to score social bonds which corresponds to a Positive, Neutral or Negative rating and is used to guide investment decisions. (Read more about our social bonds methodology here). More generally, to promote the funding of social projects with positive social outcomes, we have added bonuses to the ESG scores of social bonds (based on analysis of their quality by ESG analysts) versus the standard bonds of the same issuer.

BNP Paribas Social Bond strategy: Our social bond strategy launched in 2021 offers investors the opportunity to help finance social projects. The strategy only invests in bonds assessed as Positive or Neutral according to our methodology that support projects, assets and activities that have positive social and sustainability outcomes (see Box 6). The sub-fund invests at least 75% of its assets in social bonds and sustainability bonds denominated in hard currencies.

84. Green bonds reached new heights in 2023 | Insights | Bloomberg Professional Services

Box 6: Our Social Bond Strategy addresses drivers of inequality

Our annual impact report developed for the BNP Paribas Social Bonds strategy looks at each social use-of-proceeds category, the number of bonds associated with it, and how much of the fund is deployed to each category. We show our measures of the main social impact indicator for that category. *(Read more in our 2023 social bond impact report here).*

Social benefit metrics	
• **379 000** housing units constructed	• **56 million** beneficiaries of unemployment benefits
• **638 000** beneficiaries of affordable/social housing	• **208 000 SMEs** financed
• **516 000** hospital beds made available	• **49 million** beneficiaries of social inclusion

Note: not exclusively prorata-ed to size of bonds due to differences in issuer reporting

Use of proceeds (% AUM)	
• **15%** SME support via financing	• **7%** unemployment benefits
• **14%** Healthcare	• **4%** Education
• **11%** Social / affordable housing	• **12%** Green-related
• **9%** Social inclusion (other social related benefits not captured in other categories)	**Remaining AUM:** Bonds not yet reaching 1 year of issuance (hence no report)

Note: based on issuer reporting

SDG mapping (% AUM)	
• **37%** to SDG 10 Reduced Inequalities	• **18%** to SDG 8 Decent Work
• **19%** to SDG 11 Sustainable Cities & Communities	• **10%** to SDG 1 No Poverty

Note: Each bond can be associated with two SDGs, so total AUM can be >100%

Social Impact Bonds (SIB), unlike social bonds, are contracts in which the repayment and return on investment are contingent upon the achievement of desired social outcomes. SIBs are a unique collaborative model between the public sector, private sector and Social and Solidarity Economy (SSE) (e.g., non-governmental organisations, charities), aimed at generating innovative projects with a positive impact on society. Projects are deployed by project leaders and pre-financed by investors; the government reimburses investors if predefined impact objectives are met. This method of financing enables the large-scale development of effective solutions built on the ground, close to the needs of beneficiaries, focusing on prevention and innovation, in support of public policies while enabling public authorities to avoid certain social and economic costs. At the end of 2023, BNP Paribas Group supported (as arranger or investor, sometimes both) 24 impact bonds, representing more than EUR 82 million in total.[85]

BNP Paribas European Social Impact Bond strategies: In 2019, we created the BNP Paribas European Social Impact Bonds (SIB) Fund, the first European fund with EUR 10 million dedicated to SIBs. Three SIBs funded by this vehicle will enable more than 1 000 students to benefit from dedicated support and mean more than 130 children in France will avoid foster care.[86] In 2023, building on the success of its first fund, BNPP AM launched European SIB Fund II with a target size of EUR 70 million, a portion of which will be invested by other institutional investors. The fund will roll out an investment strategy geared towards fostering solutions that address social needs and environmental challenges, particularly the Just Transition. At the end of 2023, EUR 46 million had already been invested for 10 projects selected for funding.

Passive solutions

BNP Paribas Easy JPM ESG Green, Social & Sustainability Bonds ETF strategy: This strategy tracks the JPM ESG Green, Social and Sustainability IG EUR Bond index that invests in green, social and sustainability bonds, labelled by Climate Bonds Initiative and subject to a qualitative review by our ESG analysts.

Private Assets

Private Assets is a business unit launched in 2023 within BNP Paribas' Investment and Protection Services (IPS) division, which includes asset management, insurance and real estate.

'Solidarity Funds' are social impact funds that utilise employee or banking savings to achieve a primary social impact objective and generate a financial return. In France, we manage multiple solidarity strategies, also known as '90/10' funds: 90% of assets are invested in exchange-traded listed equities and bonds that meet specific ESG criteria; 5-10% of assets are invested equity, quasi-equity, and debt in the Social and Solidarity Economy (SSE) – associations, cooperatives and companies seeking specific social and environmental objectives. **At the end of 2023, BNPP AM managed 11 social impact funds totalling EUR 2.9 billion in AUM on behalf of 274 700 individuals.**[87]

BNP Paribas Social Business Impact (SBI) Strategy: This strategy is a 'Fonds Professionnel Spécialisé' (or specialised professional strategy; SFDR Article 9) that centralises social investments from several solidarity funds. Its goal is to invest its assets in associations, cooperatives and companies in the SSE.

Our Social Business Impact strategy is based on the belief that social finance must support organisations within the social and solidarity economy that address all forms of vulnerability: social or professional isolation, age, disability, disease, etc. Our historical focus has been to support integration in all its forms, by financing organisations that provide products and/or services to help fragile beneficiaries.

Today, this strategy finance projects with a strong social and/or environmental impact that positively benefit society. Accordingly, our investment strategy specifically targets SDGs 1 (No Poverty) and 10 (Reduced inequality) and we have developed our own impact measurement methodology to guide our investment choices and monitor impact for our clients.

We have seen significant growth in this strategy – from EUR 51 million of AUM in 2018 to EUR 215 million of AUM at the end of 2023. Of this, we have invested EUR 171 million in 30 organisations driving positive outcomes across a range of social and environment issues. The strategy has been awarded the *Entreprise Solidaire d'Utilité Sociale* (ESUS) certification and the Finansol and France Relance labels. (Read the detailed report of our partners' contributions to the SDGs).

85. BNP Paribas CSR Strategy 2024
86. BNP Paribas and the European Investment Fund launch a €10 million fund to co-invest in Social Impact Bonds ("SIB") in the European Union
87. 2023 BNPP AM Social Investments' Impact Report

BNP Paribas Impact Investing strategy: Our impact investing envelope is managed by an internal joint venture (JV) between BNP Paribas Positive Impact Business Acceleration (within the Group CSR department) and the BNPP AM Private Assets team. The JV conducts minority-share equity investments from venture capital to growth stage across all regions and invests in three sectors: nature capital, climate change and local development, and social impact. Out of the EUR 200 million envelope, half will be deployed in companies that mitigate a specific social issue and/or seek to achieve positive social outcomes for vulnerable or disadvantaged beneficiaries.

The main themes include education and equal opportunities, social inclusion and precariousness, institutions and community's empowerment, access to health, autonomy and wellbeing, affordable housing and finally, employment and financial inclusion. For example, the team has invested in Each One, a social mission company (ESUS) that helps refugees and newcomers find a job in France while working with large corporates and making it easier for them to diversify their talent pool and meet CSR objectives. Ecodair is another relevant example, as it uses IT reconditioning to train and provide access to employment to disabled people. As of today, Ecodair trains and employs 130+ vulnerable people.

PILLAR 6 – WALKING THE TALK

▷ **Focus area #9:** Continue building a more gender-equal workplace by achieving our gender representation targets for women in senior management positions, on internal boards, and in our leadership talent pipeline; draw upon strategies for recruiting women into our investment teams.

▷ **Focus area #10:** Strengthen our programmes that aim to support young people who face systemic barriers to equal opportunity find entry and achieve success in the workforce.

'Walking the talk' is critical to achieving excellence. To achieve our objectives requires us to build a culture of sustainability from the inside out. That is why we added our Corporate Social Responsibility (CSR) strategy as the sixth pillar of our Global Sustainability Strategy.

Diversity, Equity, and Inclusion (DEI)

Our CSR strategy has four main strands, two of which are focused on issues of diversity, equity and inclusion (DEI). At BNPP AM and through BNP Paribas Group, our efforts are focused in five areas:

- Professional equality between genders
- Multiculturalism and diversity of origins
- Disability
- Age and intergenerational relations
- Sexual orientation and gender identity

(Read more about BNP Paribas Group's DEI initiatives here).

With respect to achieving gender parity, we set ambitious women representation targets at all levels:

- Achieved 36% women in senior management (2023) vs. 40% target (2025)
- Achieved 45% women on internal boards (2023) vs. 50% target (2025)
- Achieved 49% women in our leadership pipeline talent programme vs. 50% target (2025)

An important metric in our industry is women in fund manager roles, and at BNPP AM, women make up 25% of these roles. While this exceeds the 12% industry average, we know we have more work to do, and we are committed to doing it.[88] In 2023, nearly 50% of recruits into our investment platform were women, setting the stage for a more balanced and diverse future. We also pay particular attention to gender pay gaps, and on a yearly basis, we conduct detailed studies and put action plans in place.

To help systemise this change, all members of our Executive Committee have a formalised DEI ambition among their yearly objectives. In addition to this, we complement our targets for women in the workforce with programmes and initiatives designed to help build a culture of inclusion. This allows our employees to be comfortable being themselves so that they can fully unlock their potential. Our goal in the coming years will be to strengthen how we address other forms of diversity beyond gender and ability.

88. Alpha Female Report 2023: Gender parity progress at a standstill (citywire.com)

Box 7: Fighting inequalities in access to power and water

Our holistic perspective on inequality frames our CSR approach. We identify and work with NGOs fighting inequality in a variety of ways, including improved access to necessities such as water and power. According to the World Health Organization, "As of 2021, 567 million people in sub-Saharan Africa did not have access to electricity, accounting for more than 80% of the global population without access." Without proper access to electricity, many turn to traditional energy sources that generate household air pollution. According to the 2019 WHO estimates, "3.2 million premature deaths each year were attributable to household air pollution created by using polluting fuels and technologies for cooking."

In 2020, we launched a partnership with Electriciens sans Frontières (ESF), a French NGO founded in 1986, to support their efforts to bring power and water to underserved communities around the world. ESF mobilises more than 1 200 volunteers on approximately 115 ongoing energy and water projects in over 30 countries ranging from South America and Africa to Europe, the Middle East and Asia.

Community-scale renewable energy projects help bring lighting to schools, or electricity to medical centres or to power water pumps to rural areas of the world that are far from national electricity grids. Meeting basic needs such as education, health and access to water can greatly improve human and economic development in these areas. In 2024, we expanded our partnership with ESF by making them the official charity partner of our Global Net Zero Transition Equity strategy, committing 5% of the strategy's management fee to them on an annual basis.

Helping young people overcome systemic barriers to success

We have put in place a chain of programmes designed to make it easier for young people from socio-economically disadvantaged backgrounds to develop their careers. This starts with a range of tutoring and mentoring programmes to help support young people in their ambitions. It culminates in internships and other forms of work experience that we can provide. This vital work experience can transform a person's career trajectory and set them up for ongoing success throughout their professional life. We will attempt to track internally the number of young people we offer internships to through programmes targeted at people from socio-economically disadvantaged backgrounds.

We have also embarked on a journey to harness our employees' knowledge and experiences and turn them into mentors for young people. Our goal is to help our employees help young people and we are in the process of formalising our approach to this *(see* Box 8*)*.

Box 8: Helping young people in France and UK get their career start

We have launched several initiatives across the world to strengthen equality of opportunity for young people. We partner with Chemins d'avenirs, an organisation that connects young people in rural France with mentors from urban areas. As in many countries, opportunities in the rural areas of France are diminishing and many young people are systemically locked into their current patterns because of blind spots in public policy or equal opportunity schemes. With 10 million young people residing outside of France's urban areas, the stakes are high. Through our partnership with *Chemins d'avenirs*, employee mentors are paired with young people in rural areas of France for 12-18 months. Employee mentors work with mentees to expand their horizons and instil confidence to help achieve their aspirations.

We also support young people seeking to start their career in the asset management industry. In the UK, we support several such programmes:

- We partnered with HeadStart Action for the third year in a row to offer work placements to young people to enhance their employability
- We also participated in the 10 000 Interns initiative, which seeks to address chronic underrepresentation of black talent in the investment management industry
- We participated in the CFA Institute's Women in Investments programme. Since joining the programme in 2022, we have offered nine internships to young women in our London office
- We are an active member of the Diversity Project, a widely recognised industry initiative which will further enable us to drive change
- In 2024, we are participating in #10000AbleInterns, to address the underrepresentation of disabled talent within UK industries.

We have an active employee volunteer programme. Volunteering helps us 'walk the talk': Every volunteer hour helps to build stronger, more resilient communities. It also helps each of us develop both professional and personal skills while better connecting us with our colleagues and society. We encourage our employees to volunteer a minimum of two days a year in the community and have set up a number of initiatives to make it easy for them to do this. These include our flagship Community Impact Week, our global volunteering week that nearly a third of our employees participated in 2023 and 2024. We track the number of hours our employees volunteer through our programmes and our goal is to develop better impact reporting so we can better understand if and how we need to adjust our initiatives to reach our objectives. *(See page 113 of our Sustainability Report to read more about our employee volunteer programmes).*

Conclusion

A growing consensus of economists, financial authorities, climate scientists and others point to the financial materiality of inequality and the urgency with which we must take action to address it. This roadmap presents our holistic view on inequality, which we believe underpins and reinforces social risks that threaten market stability, sustainable growth and our investees' long-term performance. With a new framework to assess how corporate actions may impact inequality outcomes, we present our focus areas across our sustainability strategy, from our investment processes and products to our own operations.

Over time, we aim to increase our social and equality-themed investments and call on other investors to prioritise addressing inequality.

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VIEWPOINT

BNP PARIBAS
ASSET MANAGEMENT

The sustainable investor for a changing world