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METHODOLOGY OF IDENTIFICATION OF "SFDR SUSTAINABLE INVESTMENT" PRODUCTS

SFDR SUSTAINABLE FINANCE DISCLOSURE REGULATION

The Commission put forward the action plan on financing sustainable growth in March 2018 which aims to strengthen sustainability disclosure and accounting rule making. The Sustainable Finance Disclosure Regulation (Regulation (EU) 2019/2088) was published in December 2019 and applies from 10 March 2021. It lays down harmonised transparency rules for financial market participants and financial advisers on how they integrate environmental, social and good governance factors into their investment decisions and financial advice and on their overall and product-related sustainability ambition. The regulation brings further accountability, discipline and efficiency to financial markets

SFDR distinguishes disclosure requirements for:

- financial products that claim to have 'Sustainable Investment' as their objective (in the case of environmental objectives these are often referred to as 'dark green' financial products). The transparency required for these products is described in the Article 9 of the Disclosure Regulation. The European Comission has intimated that Article 9 funds should have 100% exposure to "Sustainable Investments";
- financial products that claim to be promoting social or environmental characteristics (often referred to as 'light green' financial products). The transparency required for these products is described in the Article 8 of the Disclosure Regulation.

The final report of the Regulatory Technical Standards adopted in October 2021 require Article 8 and 9 funds to disclose their percentages of Sustainable Investments, both commited and actual.

The SFRD defines "Sustainable Investments" as an investment 1) having an Environmental or Social Objective, 2) doing No Harm, and 3) having Good Governance.

BNP PARIBAS ASSET MANAGEMENT

The sustainable investor for a changing world

BNP PARIBAS ASSET MANAGEMENT SFDR SUSTAINABLE INVESTMENT DEFINITION

DEFINITION OF A SUSTAINABLE INVESTMENT

BNPP AM believes that Sustainable Investment should be a binary qualification applied at a company level.

"Sustainable Investment" should also be understood within the context of the broader legislative framework regulating sustainable finance. Sustainable Investments and Taxonomy Alignment have a similar purpose: identifying investments through which a positive contribution may be achieved. However, these two analytical frameworks widely differ in their nature. The EU Taxonomy alignment is intended to be an objective measure provided by a company, just as its carbon footprint, its gender pay gap or its debt-to-capital ratio and is based on clear regulatory standards. On the contrary, Sustainable Investment is a judgment call left for each market participant to make. Indeed, the recent European Commission answers to the questions from the ESAs on the interpretation of Regulation (EU) 2019/2088 (SFDR) mentions that: "The SFDR does not set out minimum requirements that qualify concepts such as contribution, do no significant harm, or good governance, i.e. the key parameters of a 'sustainable investment'. Financial market participants must carry out their own assessment for each investment and disclose their underlying assumptions".

Finally, the notion of "Sustainable Investments" should be read within the system that is built by SFDR and in particular Article 9. The legislative and regulatory litterature state in several instances that a financial product having Sustainable Investments as its objective must only invest in "Sustainable Investments" except for "special-purpose investments" such as cash and hedging derivatives, and with the exception of PAB/CTB funds which the European Commission answers to the questions from the ESAs on the interpretation of Regulation (EU) 2019/2088 (SFDR) has indicated may automatically be considered article 9.

IDENTIFICATION OF A SUSTAINABLE INVESTMENT

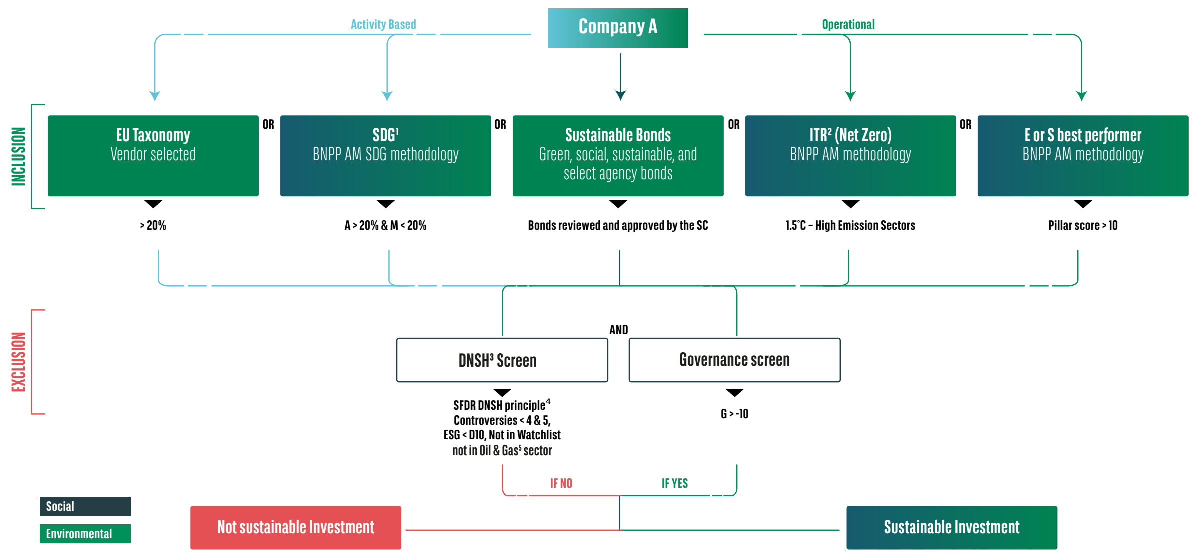
Activities vs practices
The definition of "Sustainable Investments" states that it is an investment in an economic activity for which we can identify a positive contribution to an environmental or social objective, while not harming any other objective and provided that the company has good governance practices. To identify a sustainable investment, one can consider both the output of the economic activity itself and the way the activities are delivered to build a comprehensive perspective on the positive contribution criteria.

The positive contribution of an economic activity to an environmental (E) or social (S) objective can first be measured through an output analysis: determining whether the product or service delivered by this economic activity provides a solution to an E or S objective. In addition, the positive contribution of economic activities to an E or S objective can also be achieved through their operating model or even the company-wide business and operations alignment with E or S targets.

BNP PARIBAS ASSET MANAGEMENT SUSTAINABLE INVESTMENT METHODOLOGY

BNPP AM has integrated five main building blocks into its definition of Sustainable Investments which are considered to be core components to qualify a company as sustainable.

Figure 1: Our definition of sustainable investment



1: Sustainable Developments Goals; 2: Implied Temperature Rise; 3: Do Not Significantly Harm 4: SFDR DNSH principle consists in taking into account the mandatory PASI and complying with the OECD Guidelines for Multinational Enterprises and UN Guiding Principles on Business & Human Rights; 5: Entities in the following BICS Level 4 industries: Exploration & Production; Integrated Oils; Midstream - Oil & Gas; Refining & Marketing; Drilling & Drilling Support; Oilfield Services & Equipment; Coal Mining; Gas Utilities

IDENTIFICATION OF A CONTRIBUTION TO AN ENVIRONMENTAL OBJECTIVE OR SOCIAL OBJECTIVE

In practice, an issuer must pass at least one of the following criteria described below in order to be considered as contributing to an environmental or social objective.

Eu taxonomy alignment

The EU Taxonomy is an obvious first building block as Taxonomy aligned investments is a subset of Sustainable Investments. It is at the heart of the European Sustainable Regulation and is intended to become the common language in Europe to classify economic activities as sustainable. So far 2 (climate change mitigation, climate change adaptation) of the 6 environmental objectives have been properly defined in technical guidelines.
BNPP AM has reviewed the available data providers in the market and ultimately selected Bloomberg as its preferred vendor since this is in its view the provider offering the highest level of compliance with the requirements of the regulation.

In order to classify securities as being aligned, a % threshold needs to be set for the minimum % of economic activities of a company before it is considered aligned. BNPP sets a minimum % revenue threshold of 20%. This level has been chosen for a number of reasons:

- Regulators tend to accept 20% as an exposure above which it is considered material
- Several sustainability labels, such as the French Label ISR, require an excess of 20% in order to consider exposures to be material
- Lowering the threshold to 10% does not significantly increase the % aligned companies. Issuers tend to be significantly aligned or very little.

SDG alignment

The UN Sustainable Development Goals build on decades of work by countries and the UN with the objective to promote sustainable development, to improve human lives and protect the environment.

BNPP AM has partnered with Matter, a Danish Fintech to create a revenue-based SDG-alignment model. Under this, an issuer is considered sustainable if it has more than 20% of its revenues aligned with the SDGs and less than 20% of its revenues misaligned with the SDGs.

Sustainable bonds and agencies conventional bonds
Green, Social, and Sustainability use of proceeds bonds can qualify as Sustainable Investments since the proceeds are used for specific activities, assets, or projects that can contribute positively towards Environmental and/or Social objectives. BNPP AM only considers a specific Green, Social or Sustainability use of proceeds bond to be a Sustainable Investment if it passes the internal proprietary thematic bond assessment and receives a recommendation of either "Neutral" or "Positive". At present of the exclusionary screens mentioned in our Sustainable Investment definition, only the decile 10 exclusion is applied to labelled bonds.

In addition, Agencies with Environmental and/or Social mandates issuing conventional bonds can be qualified as Sustainable Investments by the Sustainability Center. None of the "agencies" included in the Sustainable Investment list have any Green, Social and Sustainability use of proceeds bonds with a "Negative" recommendation based on BNPP AM's proprietary thematic bond assessment.

Implied temperature rise (ITR)
The fifth pillar focuses on the alignment of issuers with the objective of maintaining the global temperature rise below 1.5°C. The alignment of portfolios with this objective is becoming a key priority for asset owners, distributors and asset managers alike. Companies in high GHG emission sectors (Materials, Energy, Industrials and Utilities in the MSCI GICS) that are transitioning their business models to align with net zero (ITR <1,5%) are considered to be contributing to an environmental objective and therefore part of the Sustainable Investments definition.

E or S best performer
In order to complement the limited EU Taxonomy scope as explained above but also to account for issuer's sustainable practices, a sixth pillar is defined around Environmental and Social sustainability best performers. The E or S best performer assessment is based on the BNPP AM ESG scoring methodology, available here. The methodology scores companies and assess them against a peer group comprising companies in comparable sectors and geographical regions. Companies with a contribution score above 10 on the Environmental or Social pillar qualify as best performer.

Fundamental analysis
We have also developed a Fundamental Analysis process to complement our current EU Taxonomy and SDG datasets which allows portfolio managers to request the Sustainability Center to qualify additional issuers as Sustainable Investments not otherwise captured by our data models. In order to qualify via this channel, evidence must be provided that these issuers have sustainable activities above the 20% materiality threshold discussed above and must respect the Sustainable Investment DNSH and good governance requirements[1].

DNSH CHECK AND GOOD GOVERNANCE[2]

Once issuers have been identified as a Sustainable Investment, the regulation requires an assessment that the issuer does not significantly harm (DNSH) any other environmental or social objectives and follows good governance practices. Therefore, the following exclusion filters have been added. Issuers should:

1. **not significantly harm any other environmental or social objective**: BNPP AM excludes issuers with significant controversies, in decile 10 of our ESG scoring model, on our RBC Watchlist or involved in the oil & gas sector. We also consider SFDR PASI's at entity-level.

2. **follow good governance practices**: BNPP AM uses its proprietary ESG scoring methodology which is split out into an Environmental, Social and Governance score. Issuers with a Governance score below -10, are removed and are not considered as "Sustainable Investment".

1. It should also be noted that ESG analysts have the ability to override these negative screens in certain circumstances based on further qualitative review.
2. It should be noted that for some issuers, the lack of data did not allow us to assess the DNSH or governance screen and these issuers were not blocked to qualify as Sustainable Investment.

SCOPE

The output of "Sustainable Investments" analysis is applicable at issuer-level.

	In scope	Out of scope
Issuers	- Private companies (listed and non-listed) - Private assets (debt and equity) - Sovereign-linked companies - Agencies or other quasi-sovereign entities	- Sovereigns are not considered in the scope of Sustainable Investment definition at this stage. This position might be revisited after clarifications from EU authorities or evolutions of standard market practices.
Assets	- Green, Social and Sustainability Bonds: these instruments do not inherit the extra-financial characteristics of their issuer and are instead evaluated individually against our proprietary criteria for use-of-proceeds labeled bonds. - Synthetic replication and formula funds relying on derivatives such as TRS (Total Return Swap) to get exposed to the investment strategy: the Sustainable Investments methodology applies to such derivatives underlying portfolio.	- Cash: out of scope of the Sustainable Investments definition. - Derivatives: out of scope of the Sustainable Investments definition except in the specific case of synthetic replication

FORWARD LOOKING PERSPECTIVE

We are actively working to expand our methodology to new asset classes (e.g. private Fund-of-Funds).

DISCLAIMER

The investments in the funds are subject to market fluctuations and the risks inherent in investments in securities. The value of investments and the income they generate may go down as well as up and it is possible that investors will not recover their initial outlay, the funds described being at risk of capital loss. For a Complete description and definition of risks, please consult the last available prospectus and KIID of the funds

About SFDR categorisations:

- "Article 6" products either integrate environmental, social and governance (ESG) risk considerations into the investment decision-making process, or explain why sustainability risk is not relevant, but do not meet the additional criteria of Article 8 or Article 9 strategies.
- "Article 8" products promote social and/or environmental characteristics. These may invest in sustainable investments, but do not have sustainable investing as a core objective.
- "Article 9" products have a sustainable investment objective.

ESG: Environmental, Social and Governance.

DEFINITIONS

ISR: L'investissement Socialement Responsable
ESG: Environmental, Social and Governance.
PASI: Principal Adverse Impact indicators
SFDR: Sustainable Finance Disclosure Regulation

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VIEWPOINT

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