



EXTRA  
FINANCIAL REPORT

2020 STEWARDSHIP REPORT



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

The sustainable  
investor for a  
changing world

## OUR STEWARDSHIP ACTIVITIES IN 2020 WERE MARKED BY FOUR NASCENT TRENDS THAT ARE HERE TO STAY:

- the emergence of environmental and social engagement with sovereign bond issuers,
- the rising concern over biodiversity loss,
- engagement on Environmental, Social and Governance (ESG) topics by our portfolio managers with the companies they hold in their portfolios that exhibit the lowest ESG scores, which is part of our new integration guidelines,
- heightened attention on CA100+ engagements including our special focus on tackling climate-related lobbying.

Until recently, our exchanges with official government representatives as bond holders were limited to the issuance of green bonds. While still a new practice for us, we have started to ramp up our dialogue with governments about ESG issues in relation to the issuance of sovereign debt. These discussions focus on national transition pathways to meet commitments to the Paris Agreement.

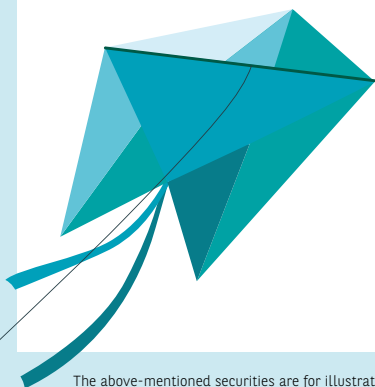
On a different note, 2020 saw the consolidation of policy engagement on sustainable finance, with the introduction of a flurry of sustainable finance policies since March 2018 in Europe and elsewhere.

As policymakers set the foundations for regulating the sustainable finance market around the world, investors have been ramping up their engagements on public policy. BNP Paribas Asset Management has been an active contributor and leading voice in this area within the EU and abroad for several years.

While biodiversity is not new to us, we are now approaching it more holistically. Our dialogue with companies reflects the inter-causality between deforestation and climate change, for example, or between water usage and soil degradation and global biodiversity loss. During the course of 2020, we engaged with 38 companies on biodiversity issues ranging from regenerative agriculture and the use of pesticides to the preservation of the Arctic National Wildlife Refuge. The sectors covered include financials, chemicals, utilities, mining, paper & forestry, and food & beverage companies.

As of 2020, all our investment strategies have adopted a sustainable investment approach. This means that they integrate the key pillars of sustainable investment<sup>1</sup> defined in our [Global Sustainability Strategy \(GSS\)](#), a critical component of which is ESG integration. Our [ESG integration guidelines](#) dictate that portfolio managers ought to avoid investing in a weakly rated entity (in active portfolios) without actively engaging to improve that company's ESG rating. As a result, this year we have seen the beginning of many dialogues between portfolio managers and companies centred on improving companies' weakest areas of social, environmental or governance performance.

Finally, 2020 saw continued focus on our Climate Action 100+ engagements. We were pleased to welcome progress by many companies, as discussed later in this section.



## RECOGNISED FOR OUR STEWARDSHIP ACTIVITY

In 2020, **Influence Map** launched a report **analysing financial sector lobbying on EU Sustainable Finance Policy**, and identifies BNP Paribas Asset Management as one of three firms that stand out as being actively engaged in promoting progressive sustainable finance policy. The report noted BNPP AM's calls for reform to achieve a sustainable financial system and to limit global warming to 1.5°C, as well as its consistent support for the aims of the EU's Sustainable Finance Action Plan since 2018.



WELCOME TO MICHAEL,  
THANK YOU TO HELENA



**Michael Herskovich has been appointed Global Head of Stewardship of BNP Paribas Asset Management.** Michael has been Global Head of Corporate Governance since 2009 and is a long-standing expert in the field of stewardship. He played a critical role in building our renowned stewardship programme as well as made a significant contribution to the development of our more recent ESG scoring framework. He works closely with portfolio managers in the context of proxy voting and engagement and this collaboration will become even closer as we strengthen the ties between investment teams and our stewardship activities.

His wider industry involvement includes being a board member of the International Corporate Governance Network (ICGN), and Chair of the Corporate Governance Committee at the French Association of Asset Managers (AFG), as well as the Chair of the International Corporate Governance Committee at the Council of Institutional Investors (CII).

Michael replaces Helena Viñes Fiestas, who left BNPP AM after 10 years to take up a new role as a board member of the Comisión Nacional del Mercado de Valores (CNMV), the Spanish securities market regulator. We are very grateful to Helena for the major contribution she has made

to responsible investment and sustainable finance at BNPP AM. As Deputy Head of Sustainability and Global Head of Stewardship & Policy, Helena played a critical role in the development of BNPP AM's 2019 Global Sustainability Strategy, and led our impressive Sustainability research team for many years before that, including overseeing the launch of our first climate change strategy ahead of COP21. Helena represented BNPP Group on the EU Platform on Sustainable Finance, and continues in her role as rapporteur for one of the working groups.

# ENERGY TRANSITION

## CLIMATE ACTION 100+

An important element of our stewardship strategy to address climate change is our active membership in the Climate Action 100+ initiative (CA100+), a collective effort to engage the world's largest corporate greenhouse gas emitters. 2020 saw the creation of the CA100+ Net Zero Company Benchmark. The Benchmark, to which we have contributed, defines key indicators to assess business alignment with a net zero future and the goal of the Paris Agreement to limit global temperature rise to 1.5°C above pre-industrial levels. It is the first benchmark that addresses four key areas for BNPP AM and other European investors: green revenues (the EU Taxonomy for European companies), capital alignment (a second step will be the use of the EU Taxonomy as the reference given that European companies will have to report their capex alignment annually), corporate climate lobbying and Just Transition.

Most of our current engagements are focused on this newly released benchmark and on corporate climate lobbying practices.

Our Global Sustainability Strategy makes clear our objective "to make a substantive contribution to the low-carbon energy transition" and states that one of the ways we will achieve this is by encouraging our investee companies "to align their strategies with the goals of the Paris Agreement". This includes our long-term commitment to constructive stewardship of our clients' assets through proxy voting, corporate engagement and public policy advocacy.

### Americas

In the United States, we were honoured to accept an invitation to co-lead the CA100+ engagement with Exxon Mobil, alongside CalPERS. We are also active participants as supporting investors in CA100+ dialogues with three electric utilities, Southern Company, Duke and Dominion, and joined the teams engaging Chevron and Delta Airlines.

All three utilities have now announced net-zero by 2050 commitments, with announcements by Duke in 2019 and Southern and Dominion in 2020. Our dialogue with Southern Company continues to be particularly productive, including a call with the company's CEO, where we led a discussion about the adequacy of the climate-related metrics in the CEO's own long-term compensation plan.

### Europe

Throughout 2020, we led or co-lead engagements with Danone, Iberdrola, Naturgy, Peugeot, Repsol, Saint-Gobain and Total as part of the CA100+ initiative. We also played a key role in CA100+'s engagements with Renault and Air France.

Our exchanges with Total intensified in 2020, with its Chair and CEO responding personally to CA100+'s call for greater ambition. The long-lasting and fertile dialogue resulted in a joint statement published in May in which Total made three major announcements. First, it committed to net zero emissions across its worldwide operations by 2050 or sooner (Scope 1 and 2 emissions) as well as reaching carbon neutrality in Europe for its Scope 3 emissions and intermediate steps elsewhere. Secondly, the company increased the proportion of its future capital investments dedicated to low-carbon electricity to 20% by 2030 or sooner, and committed to systematically apply a sensitivity test of 100 USD/t of CO<sub>2</sub>e when allocating its capital expenditure budget. Lastly, Total will publicly update shareholders on the progress made on an annual basis and will review its climate targets and strategy at least every five years.

## THE DECARBONISATION OF TRANSPORTATION IS CRITICAL TO ACHIEVING CARBON NEUTRALITY.

While the start of our dialogue with Total dates back some years, 2020 was the start of a fruitful exchange with the two Spanish companies, Naturgy and Iberdrola. Our goal was to encourage the companies to outperform against the CA100+ Net Zero Company Benchmark.

Despite having just started the dialogue, Iberdrola responded positively and openly, demonstrating its leadership in the sector. It has committed to be net zero by 2030 within Europe (scope 1 and 2 emissions) and globally by 2050 at the latest. They also have an ambition to reach net zero for scope 3 emissions by 2050 or sooner. Their scope 1 and 2 targets are certified by the Science Based Target Initiative (SBTi) and regarding their scope 3 targets, they are waiting for new guidelines from the SBTi, which are not yet finalised with regards to abatement (e.g. compensation levels allowed, etc.). In December 2020, Iberdrola raised their ambition by committing to lower their emissions intensity to 50g CO<sub>2</sub>e/kWh by 2030, which is half the power generation threshold within the EU Taxonomy at the time of writing.

Their scope 1, 2 and 3 emission reduction target is 43% by 2030, from a 2017 baseline, which is in line with a 1.5°C trajectory.

Iberdrola is one of the first European companies to publicly integrate the EU Taxonomy into its strategy and establish a target against it. From 2020 to 2025 Iberdrola will allocate 75 to 81%<sup>1</sup> of their total investment Plan (€75 billion) to investments aligned with the EU Taxonomy.

At the end of 2020, Saint-Gobain published their transition strategy for achieving carbon neutrality by 2050. As part of their strategy, the company set new 2030 targets for scope 1 and 2 emissions (33% reduction) and scope 3 emissions (16% absolute emissions reduction versus 2017 levels), which were validated by the SBTi. In addition, Saint-Gobain committed €100 million per year from now until 2030 to R&D and capital expenditure geared towards supporting their transition efforts.

### Transportation sector

The decarbonisation of transportation is critical to achieving carbon neutrality. Transportation is responsible for roughly a quarter of the world's energy consumption. BNPP AM leads the dialogue with Peugeot on behalf of the CA100+ coalition, and works hand-in-hand with lead investors in the coalition's exchanges with Renault and Air France.

We have enjoyed a very fluid dialogue with Peugeot, meaning the company has always responded with open willingness to improve. The company had their CO<sub>2</sub> targets certified by the SBTi (scope 1 and 2) and established scope 3 targets. The de facto merger of Peugeot with FCA into a new company to be named Stellantis interrupted the conversations aimed at ensuring a firm commitment to carbon neutrality by 2050 and the integration of the EU Taxonomy as a key variable within their transition strategy. Both points will be reintroduced in our dialogue with the new company on the recently released CA100+ benchmark, alongside a discussion about the future company's public policy positions and strategy with regard to climate change.

1. Note from Iberdrola: the 75% allocation could potentially increase up to 81% if two more US states, which will be on the trajectory towards decarbonisation by 2025, are included. Ref. [https://www.iberdrola.com/wcorp/gc/prod/en\\_US/inversores/docs/Outlook\\_2020\\_2025\\_Financial\\_Management\\_3.pdf](https://www.iberdrola.com/wcorp/gc/prod/en_US/inversores/docs/Outlook_2020_2025_Financial_Management_3.pdf)

## ENCOURAGING OUR INVESTEE COMPANIES "TO ALIGN THEIR STRATEGIES WITH THE GOALS OF THE PARIS AGREEMENT."

Over the last two years, we have been engaging with Air France and Renault as a collaborative investor. Our engagement with Renault reached a milestone this year when the company committed to achieving net zero by 2050 within their European operations, which represent 68% of their 2020 revenues. Renault has also committed to reducing emissions by 50% compared to 2010 within the next 10 years. Air France has made advancements in three areas as well. The company is working towards the submission of targets for SBTi certification and the publication of their first Task Force on Climate-related Financial Disclosures (TCFD) report, which will include their strategy on achieving carbon neutrality, and the rising use of biofuel within their operations. Because of the Covid crisis and the paramount impact it has had on airlines, the dialogue has been put on hold.

During 2020, we continued the productive dialogue with Danone. Danone has had a climate strategy for a number of years and they achieved their scope 1, 2 and 3 emissions targets in 2019, five years ahead of schedule. In their efforts to embed climate considerations across the company's business, Danone went a step further by disclosing the cost of carbon emissions to earnings with a so-called "carbon-adjusted" EPS (earnings per share).

We also recognise their endeavours to align their business with a 1.5°C pathway. Discussions have centred on the full understanding of their value chain (upstream and downstream), their strategy to achieve net zero (including carbon soil sequestration and carbon credits), and the underlying methodologies to do this. Lastly, Danone included for the first time a scenario analysis in their **2020 Universal Registration Document**, which is considered best practice according to the TCFD recommendations.

### Asia-Pacific region

In the Asia-Pacific region, we have been leading the coalition's engagement with PTT Public Company and supporting lead investors in their engagement with CNOOC and Anhui Conch. This year we took the lead on two other companies: Sinopec and Power Asset Holdings. After its launch, we introduced the **CA100+ Net Zero Company Benchmark** to the three companies we lead or co-lead on with PTT, Sinopec and Power Asset Holdings. The dialogue with Chinese oil and gas companies Sinopec and CNOOC proved encouraging in 2020, not least because of China's pledge to achieve carbon neutrality by 2060. Both companies are working on defining their transition strategies to carbon neutrality. We look forward to continued engagement with these companies as they progress from broad carbon neutrality pledges to concrete climate transition plans.

## CORPORATE CLIMATE LOBBYING

Corporate lobbying activities that are inconsistent with the goals of the Paris Agreement present significant risks to investors and systemic risks to our economies, as delays in the implementation of the Paris Agreement increase the physical risks of climate change, threaten economic stability and introduce uncertainty and volatility into our portfolios. Of particular concern are the trade associations and other politically active organisations that speak for business but, unfortunately, too often stand in the way of progress. We believe that Paris-aligned climate lobbying helps to mitigate these risks, and contributes positively to the long-term value of our investment portfolios.

In 2018, with IIGCC, Church of England and AP7, we launched a set of **European Investor Expectations on Corporate Climate Lobbying**, which served as the basis for engagements by us and other investors with the 57 largest corporate greenhouse gas emitters in Europe (included in the Climate Action 100+). The **Expectations** ask companies to commit to lobbying in favour of the Paris Agreement's goals, to evaluate the alignment of direct and indirect lobbying against these goals, to take steps to address misalignments, and

to be transparent about these efforts. Investors have reached agreement with 20 large European companies to align their lobbying activities with the Paris Agreement, including commitments to publish reports on Paris alignment. Several of these companies, including BP, Shell, Equinor, Eni and Total have subsequently left certain US trade associations where they identified irreconcilable differences on climate policy.

We then brought this effort to the United States:

- in 2019, working with Ceres and Boston Trust Walden, we helped draft and were a lead signatory on a letter presenting the **Expectations** to the US companies included in the Climate Action 100+ (47 companies) on behalf of 200 institutional investors managing USD 6.5 trillion. More than half of the targeted companies responded in some form,
- in 2020, **we helped to coordinate a follow-up letter** to each of these companies,

- we drafted and submitted a new shareholder proposal to Chevron focused on Paris-aligned climate lobbying, which achieved a historic majority vote,
- we are helping to coordinate investor engagements on this topic through Ceres and the Interfaith Center on Corporate Responsibility (ICCR). Our shareholder proposal is being used by other investors as a template for their own proposal submissions.



In 2020, we served as lead filer of a new shareholder proposal seeking a climate lobbying report from Exxon Mobil, Chevron, Delta Airlines and United Airlines. Our proposal received a majority vote of 53.5% at Chevron's annual meeting – **the first time a climate-related proposal had ever received majority support at Chevron** – a 46% vote at Delta Airlines' annual meeting and 31.5% at United Airlines. Our proposals were flagged for support by the CA100+ initiative and by CalPERS. We view these vote results as strong evidence that investors value the information we are seeking, particularly considering that this was a brand new proposal investors had not seen before.

Our proposal highlights the gap in national ambitions to fulfil the Paris Agreement, noting that "critical gaps remain between the commitments of national governments and the actions required to prevent the worst effects of climate change. Companies have an important and constructive role to play in enabling policy-makers to close these gaps."

Unlike the lobbying proposals investors have considered for a decade, seeking board oversight and full disclosure of lobbying

expenditures, our proposal makes a new request. The content of corporate lobbying on climate change – particularly the indirect lobbying through trade associations and other organisations that engage in public policy advocacy – is generally unavailable to investors. The proposal seeks an evaluation of each company's lobbying efforts measured against the temperature target set by the Paris Agreement, led by the only primarily independent body with access to the inside information necessary for a thorough review, the Board of Directors.


Although many companies maintain internal processes to ensure that their lobbying activities are aligned with the long-term interests of the business, our proposal asks companies to use a third-party benchmark – the "well below two degrees" goal of the Paris Agreement – as their "North Star" when engaging in lobbying on climate change related policy.

At the end of the year, Chevron published a twelve-page **Climate Lobbying Report** in response to the historic majority vote on our proposal. The report states that Chevron aims to "use our capabilities, assets, and expertise to deliver progress toward the

global net zero ambitions of the Paris Agreement." Chevron's report provides specific highlights of its recent engagements with four U.S. trade associations on climate policy, explaining that it helped create a Carbon Steering Committee at one organisation and helped to shift that group's historic opposition to carbon pricing to evaluating proposals on a case-by-case basis. The report also provides details on climate-related work undertaken by 18 US trade associations and, although these descriptions focus exclusively on positive efforts, they are evidence of a special review undertaken in response to our proposal. The report also notes that the company considers climate lobbying in their evaluation of their trade association memberships.

Although Chevron's report does not meet the standard of some of the European oil majors, and does not address every element of our proposal, Chevron is open to our feedback and interested in improving their lobbying disclosures. Our very constructive dialogue with the company will continue.





Early in 2020, Exxon was granted permission by the Securities and Exchange Commission to omit our proposal from their proxy statement, over our lengthy written objections. We resubmitted our proposal for the 2021 proxy season and, early in 2021, the SEC denied Exxon's request for no-action relief, allowing our proposal to go to a vote.

We also met with Delta Airlines and United Airlines to discuss our proposal, as well as ConocoPhillips and Walmart. Conoco ultimately published a brief report on their website about their climate lobbying efforts. Walmart connected our investor group with the Business Roundtable, which provided us with a preview of their new climate change policy statement, which we were able to provide feedback on. We also signed an investor letter to Boeing regarding climate legislation in the state of Oregon.

## SUPPORTING COMPANIES TO PHASE OUT COAL

A fundamental aspect of our efforts to progressively align our portfolios with the goals of the Paris Agreement is our coal policy. The heart of the policy is the alignment of the carbon intensities for power generation in our portfolios with the IEA Sustainable Development Scenario (SDS) by 2025. The need for a transition from high carbon to low carbon power is particularly acute in Asia, where coal is still a dominant source of electricity generation and where utilities together represent 23% of global greenhouse gas emissions<sup>2</sup>.

We engage with portfolio companies involved in coal-fired power generation to verify their emissions intensity and to encourage them to raise the ambition of their decarbonisation strategies. The current threshold for carbon intensity of power generation set by our policy is 463g CO<sub>2</sub>e/KWh, with a gradual reduction until we reach the IEA SDS target for 2025 (346g CO<sub>2</sub>e/KWh). There are a handful of companies in Asia that, despite failing to meet our threshold, have made credible commitments to

reduce their coal dependency to a level consistent with the IEA SDS. We closely monitor the implementation of their decarbonisation plans. As part of our annual review, we re-assess and engage with all companies in our watch list. There has been both tangible progress at some companies (e.g. CLP Holdings, see below) and disappointing lack of advancement in two cases. Consequently, we have moved these companies to our exclusion list and divested from them.

The case of CLP Holdings illustrates the benefits of engagement. CLP Holdings have made commendable progress. The company has developed a climate strategy in line with TCFD recommendations. They have tightened their decarbonisation target for 2050 by setting an emissions reduction target of 80% from 2007 levels and set new intermediary targets for 2030 and 2040 to be revised at least every five years. They have committed to no additional coal-fired power and to phasing out all remaining coal-based assets.

2. Source: International Energy Agency (IEA) World Energy Outlook 2020

# ENVIRONMENTAL SUSTAINABILITY

Preserving the planet's biodiversity is an urgent priority. A focus on biodiversity is not new to BNPP AM – our work on deforestation and climate change, for example, targets two of the key drivers of global biodiversity loss. But those are not the only drivers of this ongoing crisis.

Systemic pesticides, particularly neonicotinoids, have been associated with alarming declines in pollinators, including insects and birds, for years. We helped to organize a meeting with PepsiCo Inc., a group of investors, and two leading scientists, to discuss the global impact of these pesticides. Our dialogue can now proceed based on a common understanding of the current state of the science. Early indications are that our meeting had an impact, and has helped to shift the company's view on these ubiquitous pesti-

cides. For example, our meeting prompted PepsiCo to create a Neonics Workgroup within their Global Pesticide Council, a cross-functional group comprised of senior leaders from across the company that monitors and evaluates pesticide issues and directs PepsiCo's policies and programs.

During the course of 2020, we engaged with 38 companies on biodiversity issues ranging from regenerative agriculture and the use of pesticides to the preservation of the Arctic National Wildlife Refuge. The sectors covered include financials, chemicals, utilities, mining, paper & forestry, and food & beverage companies. Most companies do not yet have a dedicated strategy on biodiversity and at most their biodiversity programmes cover a handful of facilities. Much of our efforts are geared to encouraging com-

panies to develop their strategic thinking on how to address their adverse impacts on biodiversity.

A good example is Solvay. The company has recently committed to reducing the pressure they exercise on biodiversity by 30% by 2030, mainly due to carbon emissions, freshwater eutrophication, marine ecotoxicity and soil acidification. For instance, the company has started to reduce pollution at facility-level by reducing light intensity at night. Light pollution is a real biodiversity threat which has been barely addressed by chemical companies.

As chemical companies move away from fossil fuel-based feedstocks to bio-based chemistry, their exposure to land-use conversion increases.

## TASK FORCE ON NATURE-RELATED FINANCIAL DISCLOSURES

We are pleased to see biodiversity rapidly rising on the agenda of institutional investors and global corporations. In 2020, work began on the establishment of a [Task Force on Nature-related Financial Disclosures \(TNFD\)](#), with the BNP Paribas Group playing a leadership role and active participation from BNPP AM. The TNFD will define a reporting framework to allow the capital markets to identify, measure and reduce their various impacts on biodiversity. The effort is modelled on the Task Force on Climate-related Financial Disclosures, but will have a much broader scope.

## DATA ON CORPORATE IMPACTS ON BIODIVERSITY: A CRUCIAL ISSUE

During the first quarter of 2020, working with other asset managers, we launched a call for expressions of interest (CEI) for a research partner to develop and implement an innovative tool to measure the impact of investments on biodiversity. The goal of the CEI was to find an organisation capable, on a large scale, of measuring companies' biodiversity impact. The process was guided by a set of principles for the development of research tools, and we are grateful for support from

nature-related experts at Global Canopy, WWF, ZSL, CDC Biodiversity, UNEP WCMC, and Capitals Coalition, to name only a few key partners that provided input to the initiative. A consortium of two organisations has been selected to develop the tool and work is now underway. We further supported this effort with an investor statement that ultimately received support from 30 institutional investors managing 6 trillion euros.

Conscious of this, Croda has committed to save more land than they use by 2030. Our dialogue with chemical companies aims to better understand how each company plans to significantly reduce their adverse impacts (e.g., through yield improvement). We also encourage them to raise the ambition of their water-related targets and for these to be science-based.

To preserve nature, we must preserve land, particularly untouched areas that remain critical habitats for wildlife. We participated in an engagement with Bank of America to convince them to publicly state that they would not finance operations in the Arctic National Wildlife Refuge. The bank ultimately announced that it would not provide financing for petroleum exploration or production activities in the Arctic — the last US bank to do so — and, as one of his first official acts, President Biden placed a temporary moratorium on drilling in the Refuge.

We are also working with other interested investors to develop a collaborative engagement focused on nature loss, and were pleased to chair the first meeting of a PRI-coordinated informal working group on biodiversity. We also contributed to a [Ceres Investor Guide to Deforestation and Climate Change](#), a PRI discussion paper, Investor Action on Biodiversity, and [the PRI's Investor Expectations for the Aviation Sector](#), developed for CA100+. In our comments, we highlighted the need to consider biodiversity impacts when evaluating sustainable aviation fuels.

### Ending deforestation

Deforestation is a driver of both climate change and biodiversity loss and remains a core focus of our work in line with our GSS. During 2020, we engaged with 16 companies on three key commodities: soy, beef and palm oil.

We have been engaging with commodity traders in search of a clear commitment to end deforestation in the Brazilian Cerrado region. The Cerrado has become a booming soy producing area. A region the size of England, France, Germany, Italy and Spain combined, the Cerrado is home to more than 1,600 species of mammals, birds and reptiles, and more than 10,000 species of plants, almost half of which are found nowhere else in the world. We are seeking clear commitments to end deforestation in the Cerrado.

We also participated in an ongoing collaborative investor effort focused on the major Brazilian meatpackers JBS, Marfrig and Minerva. We took a leading role in a joint meeting with the three companies to discuss their respective efforts to fully trace their supply chains, followed by letters over the summer of 2020 requesting formal time-bound commitments to full traceability.



Full traceability on each commodity is critical to ending deforestation. However, the complexities of beef and soy value chains makes traceability extremely difficult. Currently, there are no mechanisms to fully trace indirect suppliers in these highly complex value chains.

We have been engaging with Carrefour, the French food retailer giant, for some time as part of the PRI Ceres Sustainable Forest investor coalition. Carrefour has signed the Cerrado Manifesto, engages with meatpackers and soy traders and has made commendable progress, but they face challenges tracing indirect suppliers. In response, the retailer joined the Forest Positive Coalition of Action, a coalition led by 18 corporate members of the Consumer Goods Forum representing USD 18 trillion of collective market value. Their objective is twofold: leveraging collective action to remove deforestation, forest degradation and conversion from key commodity supply chains, while supporting sustainable forest management, conservation and restoration.

We had similar discussions with Casino, another French food retailer, which has a local presence in Brazil and faces the same difficulties. Both Casino and Carrefour announced in November 2020 that they would include clauses in their suppliers' contracts in order to stop buying soy from land deforested in the Cerrado region from January 1<sup>st</sup> 2021 onwards.

BNPP AM sits on the Technical Advisory Group of ZSL SPOTT Palm Oil and Pulp & Paper. Developed by ZSL (Zoological Society of London), SPOTT (Sustainability Policy Transparency Toolkit) assesses commodity producers, processors and traders on their public disclosure regarding their organisation, policies and practices related to ESG issues. SPOTT scores tropical forestry, palm oil and natural rubber companies annually against over 100 sector-specific indicators to benchmark their progress over time. As part of the initiative, we reached out to three Indonesian and Malaysian soft commodities companies in our portfolios to encourage them to engage with ZSL SPOTT on the review of their transparency assessments of soft commodity producers and traders. Our Head of Stewardship for the Americas also participated as a member of a multi-stakeholder advisory group to inform the development of Norway's International Climate and Forest Initiative (NICFI) strategy around curbing deforestation-linked finance.

## Water, mining and tailings

One of the goals of our GSS is to improve the water efficiency of our investment portfolios, with a particular focus on water-stressed areas and water-intensive sectors. We are also working on measuring and reporting on the water footprint of our portfolios.

We have just begun engaging companies from water-intensive sectors operating in water-stressed areas to encourage significant improvements in water efficiency while ensuring water access to local communities. We started by asking mining companies to better manage their tailings.

We met with eight mining companies in 2020 following the publication of the Global Industry Standard on Tailings Management that was developed by a multi-disciplinary expert panel. The Standard aims to prevent catastrophic failure and enhance the safety of mine tailings facilities across the globe. It embodies a step-change in terms of transparency, accountability and safeguarding the rights of project-affected people.

## WE ARE ALSO WORKING ON MEASURING AND REPORTING ON THE WATER FOOTPRINT OF OUR PORTFOLIOS.

We discussed these changes with companies to identify the main challenges for implementing these new standards. Most of the companies that we met were part of the [Global Tailings Review](#) launched by the International Council on Mining and Metals (ICMM), the United Nations Environment Programme (UNEP) and the Principles for Responsible Investment (PRI). This review was aimed at analysing practices across the mining companies and establishing an international standard. This initiative grew out of the dam collapse in Brumadinho at a mine operated by Vale in 2019. Consequently, the companies were fully aware of the expected changes in the governance and supportive of more stringent standards in order to restore confidence in the mining sector. ICMM members confirmed that the implementation of the standard will be finalised within three years for all dams categorised as having extreme and very high potential consequences and within five years for all other dams. It should lead to a more transparent environment for tailings management and should facilitate the assessment by investors of the risk exposure at the company and asset level.

### **Sovereign ESG engagement**

Last year we witnessed the emergence of sovereign ESG engagement. In November 2020 the PRI under the direction of the PRI Sovereign Debt Advisory Committee (of which we are members) published a paper named "ESG engagement for sovereign debt investors". In the paper, investors recognised the extent to which the role of sovereign bondholders was underutilised. In 2020 we started our own sovereign ESG engagement efforts by establishing a conversation with the governments of Italy and Spain. The aim was to raise awareness within the Spanish and Italian treasuries on the need to start integrating ESG considerations in their funding programmes. With the Spanish government officials, we centred the dialogue on the country's decarbonisation strategy and the labour market. With the Italian officials, our engagement focused on their plans to issue green bonds as a tool to finance the country's decarbonisation efforts.

### **Green bond engagement**

It is critical for us to monitor the green bonds in which we invest and ensure the promises made in terms of use of proceeds and positive impact are kept. We engage with issuers as part of our ex-post assessment to understand how they measure the impact of the underlying projects or activities financed by their green bonds. In these meetings, we provide issuers with our advice on how to improve measurement or impact if needed.

In 2020, we held over 20 ex-post engagements with green bonds issuers. Last year all the ex-post engagements satisfied our expectations.

# EQUALITY AND INCLUSIVE GROWTH

This theme is particularly important for 2020 where systemic inequality exacerbated the effects of Covid-19 for front-line workers, communities of colour and other vulnerable people.

We are working with a coalition of 10 institutional investors, collectively managing nearly USD 4 trillion, to develop a corporate engagement programme focused on resilience. We believe there are lessons to be learned from the pandemic that will help to put us all in a stronger position for the future. Our group is therefore raising a set of key questions with roughly 50 global companies in a range of industries to initiate a dialogue about the key elements of resilience and to identify and incentivise best practices. Our strategy,

which puts workforce treatment front and centre, includes questions ranging from board oversight of human capital management to questions about capital allocation, including executive compensation. We're also asking how boards evaluate their companies' contribution to the resilience of the key systemic safeguards the companies rely upon to deliver long-term value, including climate and ecosystem stability, government solvency and integrity, and broad access to health care. We've also been in dialogue with Amazon.com and Hilton Worldwide on these issues.

Another critical aspect of this theme is corporate tax. Widespread corporate tax avoidance – or even the appearance of aggressive tax practices – undermines faith in taxation and ultimately societal resilience. We participated in an off-the-record call with a group of American companies to discuss these issues, hosted by the B Team, a group of leadership companies focused on sustainability, including fair and transparent tax practices. We also spoke at the International Anti-Corruption Conference on the importance to investors of corporate country-by-country tax reporting.





Our engagements focusing on the most vulnerable workers in corporate supply chains also continued, including discussions with Broadcom, Microchip and Western Digital to encourage stronger policies and procedures to protect the fundamental human rights of workers in their global supply chains. These discussions were prompted by low scores on the Know the Chain benchmark, which ranks companies on their policies and procedures to address forced labour in their supply chains. A key

focus of these discussions is the plight of migrant workers, who leave their countries for work, only to find that they are indebted to recruitment agencies and others for their job. We are encouraging companies to prohibit these recruitment fees and take steps to ensure that workers are reimbursed for them.

We are strong believers in collaborative engagement with other institutional investors to share best practices, learn from each other and combine our efforts

to address key systemic risks. During the year, we engaged regularly with Ceres, the UN PRI, the Interfaith Center on Corporate Responsibility, the Investor Alliance for Human Rights and the Human Capital Management Coalition. We also participated in meetings of the Council of Institutional Investors Corporate Governance Advisory Council and Harvard Law School Institutional Investor Forum on a variety of issues.

#### FOCUS ON THE GNI

Our Head of Stewardship for the Americas, Adam Kanzer, serves on the steering committee of the Investor Alliance for Human Rights, and represents BNPP AM on the board of the Global Network Initiative, a multi-stakeholder effort to address threats to freedom of expression and privacy in the digital sphere. During the year, the GNI welcomed David Kaye, the former United Nations Special Rapporteur on the promotion and protection of the right to freedom of opinion and expression, as independent chair, and several new members, including the Wikimedia Foundation and Line, the first Asian company to join the organisation. In all, GNI represents 14 leading information communications and technology companies and more than 50 academic, civil society and investor members.

# PROXY VOTING

Every year we review **our voting policy** to capture the evolution of corporate governance codes and practice as well as the learnings drawn from our own experience. For the 2020 proxy voting season, we amended three aspects of our policy:

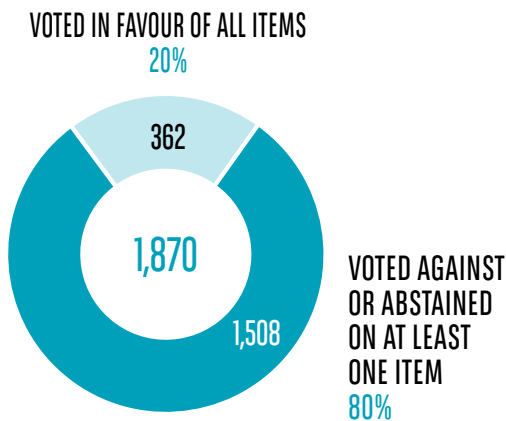
- we raised our expectations for gender diversity on corporate boards,
- we introduced rules regarding the duration and terms of mandate for directors,
- we enshrined in our policy a limit to the duration of tenure for auditors.

## VOTING STATISTICS FOR 2020

### Number of meetings voted

	Total	Europe	North America	Japan	Others
2020	1,870	923	476	130	341
	100%	49.4%	25.5%	7.0%	18.2%
2019	1,758	827	450	121	360
	100%	47.0%	25.6%	6.9%	20.5%
2018	1,464	618	438	126	282
	100%	42.2%	29.9%	8.6%	19.3%

### General meetings voted



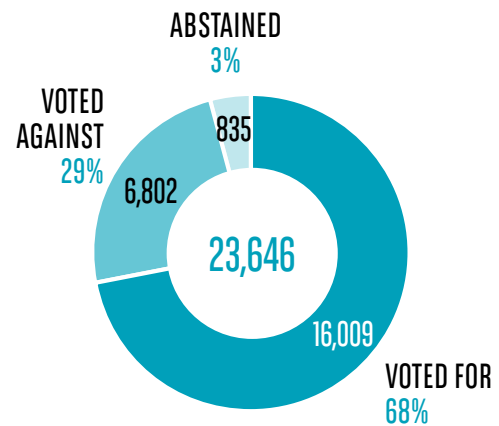
### % of resolutions voted against management or abstained



### % of rejected nominations



### Number of management resolutions voted





Within our voting scope, we voted at 1,870 general meetings, primarily in Europe and North America, which represented nearly 75% of our votes. There was a sharp increase in our opposition rate to management proposals from 27.8% in 2019 to 32.3% in 2020 primarily due to our voting policy changes. In addition, we continued to manifest our disagreement in the face of excessive and non-justifiable executive compensation (58% opposed).

It is our policy not to approve the financial statements, director and auditor reports if the company has engaged in serious violations of the UN Global Compact Principles (in some geographies we will not approve the discharge of board and management or approve board nominations). Note that while we exclude those companies that we consider to be in violation of these Principles,

we might still have minimal exposure through some of our ETFs<sup>3</sup>.

We will do likewise when a company does not report properly on their carbon footprint (scope 1, 2 and 3 emissions, when appropriate), or does not communicate nor want to constructively engage regarding business strategy to mitigate and adapt to climate change, or their climate lobbying strategy.

We supported 94% of shareholder proposals on climate change, filed four shareholder proposals on climate lobbying (at Chevron, Delta, United and Exxon), and opposed 451 management resolutions due to climate change considerations.

Our proposal at Chevron received a historic 53% vote, and after extensive engagement, the company produced a report at the end of the year, including

a discussion of how they work within trade associations to influence their climate positions. Our proposals at Delta and United received 46% and 31% support, respectively. Our proposal at Exxon Mobil was omitted at the Securities and Exchange Commission.

We have voted in favour of shareholder proposals when they were in line with the long-term interests of the company and requested action that was warranted given the practices of the company. However, we abstained when the proposal was not appropriate for the company or if the request was already applied in practice. For all details on how we voted and why, [see our 2020 Voting Report](#).

## ENGAGEMENT CAMPAIGN LINKED TO COVID-19 SITUATION

Circumstances in 2020 have meant that the majority of annual general meetings (AGMs) around the world were held behind closed doors without the physical presence of shareholders. Companies have adapted the way in which shareholders can best exercise their rights. Some used digital solutions only with no live interaction with shareholders (virtual meetings), while others accepted more interactions during the general meeting (by accepting written or live questions). Following major changes enabled by emergency legislation in many jurisdictions in the midst of Covid-19 pandemic, we have worked with issuers, regulators and shareholders to ensure shareholder meetings could go ahead in 2020 with basic ground rules to protect fundamental shareholder rights. We also played an active role in developing with the ICGN a viewpoint on [“The Future of Annual General Meetings”](#) to provide insight and guidance on what annual general meetings might look like in future.

Despite the change to the way in which general meetings were conducted, there has been no change to the way in which BNPP AM, as an active shareholder, has analysed, voted and engaged in AGMs this year. BNPP AM believes that companies should employ responsible capital allocation – even more so in light of the Covid-19 pandemic – that does not compromise long-term corporate strategy and takes into account the social imbalances resulting from the crisis. We recommended that companies explicitly disclose how the impact of the pandemic was taken into account and affected their capital allocation decisions, their business strategies, their sustainability plans, their employees and their broader stakeholders. We voted against dividend proposals if dividends were deemed irresponsible: in 2020, we opposed 8.7% of dividend proposals (compared to 2.7% in 2019).

3. For more information see our [RBC](#) and [voting policies](#)

## CLOSER LOOK AT BOARD DIVERSITY

One of our aims is to encourage companies to provide greater opportunities for women. Having greater gender diversity on boards improves corporate governance profiles and effectiveness.

In 2019, we adopted a new global voting policy to oppose all male directors on boards with no women. In 2020, we raised the threshold to 30% for companies based in the United States, Canada, Europe, Australia and New Zealand. For companies that fall between 20% and 30%, we take a deeper look and will accept male directors if certain conditions are met, such as a commitment to reaching 30% female representation within two years.

We voted against the entire board in instances where there was no female director. We rejected the nomination of 36% of proposed directors on the grounds of gender imbalance, a rise from 29% in 2019.

We also selected a small number of companies for direct engagement on this issue. Out of the 23 companies (12 in Europe and 11 in North America) we approached, we followed up with substantive exchanges with 14. One half of the companies agreed to improve their gender diversity ahead of their AGM. For example, this year we supported the board elections of Segro Reit Plc, BT

Group Plc and Logitech International as they met or exceeded the 30% for women on boards threshold.

We received encouraging – but not final – feedback from three of the companies and therefore we continue to engage with them. We voted against male directors for the nine companies that did not respond to our call for engagement or for which engagement did not come to fruition.

Note that starting in 2025 we will apply a threshold of 40% women on the board.

During the 2020 proxy season, we had 255 interactions with 140 companies related to voting issues, an increase from 123 companies in 2019.

We had 39 successful engagements (27.7% of the engagements), a slight decrease from our 31.2% success rate in 2019. However, a potential modification of our voting decision is not the only criterion for success. Some companies do not modify their practices until the following year and may not be captured in our statistics on successful engagement.

# 39

successful  
engagements

## PRE-VOTING ENGAGEMENT

During proxy season, we engage in dialogue with companies either on our own initiative or at the request of the issuer, and we generally concentrate on our largest holdings. The goal of these engagements is threefold:

- to communicate our voting policy to promote good corporate governance and to prepare for the issuer's next general meeting,
- to obtain additional information on individual voting proposals,
- to express our concerns about specific resolutions that contradict our voting policy.

### WHAT IS A SUCCESS FOR US?

We consider a voting related engagement to be successful if the company withdraws the proposal we are opposing, or we change our vote in favour of the proposal after a modification of the resolution from the issuer, or where we obtain additional information.

# PUBLIC POLICY

In September 2019, we published our **Public Policy Stewardship Strategy on Sustainability for 2019-2020**. Our strategy describes our core commitment to public policy engagement related to our sustainability goals and our key public policy objectives for the sustainability agenda. Among these, we highlighted our support for mandatory meaningful sustainability disclosures and for sustainable finance to become mainstream practice for all financial actors.

During 2020, BNPP AM actively advocated in line with our Public Policy Strategy for:

- a science-based EU Taxonomy in line with the EU goal of achieving carbon neutrality by 2050 that provides clarity to the green financial market while helping raise the necessary funds to finance the transition to a carbon neutral, sustainable and more inclusive economy,
- an EU Taxonomy, that frames transition finance and fosters corporate and financial transparency,

## EUROPEAN PLATFORM ON SUSTAINABLE FINANCE

The Platform will continue to develop the EU Taxonomy in terms of the environmental technical screening criteria for activities not yet covered in the current climate taxonomy and for the other four environmental objectives. It will make a formal recommendation on whether or not the taxonomy should be expanded to cover social objectives and activities that significantly harm the environment. It will also “monitor and report on capital flows towards sustainable investments” and “advise the Commission on sustainable finance policy more broadly”.

- a common global framework that would allow regional taxonomies to co-exist in a globalised financial market, and the use of the EU Taxonomy as a reference for the development of other taxonomies given the advanced stage of the EU’s work,
- harmonised environmental metrics and underlying methodologies, and the improvement of sustainability-related reporting, including the expansion and reinforcement of the Non-financial Reporting Directive,
- the adoption of the TCFD framework by companies and states.

In October 2020, the European Commission launched the EU Platform on Sustainable Finance to replace the EU Technical Expert

Group. BNP Paribas was one of only three financial institutions appointed to the Platform through BNPP AM’s Global Head of Stewardship and Policy, Helena Vines Fiestas, who is rapporteur of the working group on data, usability and policy. Throughout the year, we directly responded to most consultations launched by the EC and European Supervision Authorities (ESAs). We also participated in numerous workshops and events organised by EU institutions as well as by the industry.

Our efforts in developing a taxonomy are not limited to Europe. Through our role on the Platform, we have held discussions with Latin American, US and Canadian officials on the development of a taxonomy. We are also members of Monetary Authority of Singapore's (MAS) Green Finance Industry Taskforce (GFIT), which helps promote green policies and initiatives. Through the GFIT, we contributed to drafting a proposed taxonomy for Singapore-based financial institutions to identify activities that can be considered green or transitioning towards green, as well as creating a handbook

to help asset managers, banks and insurers implement the environmental risk management guidelines.

In the Asia-Pacific region, governments and regulators have remained active in developing initiatives to enable a sustainable financial ecosystem. Through our involvement in a number of policy and regulatory working groups, we continue to advocate for a convergence of ESG definitions and standards including the adoption of the metrics and principles that underpin the EU Taxonomy.

In 2020, a number of policy initiatives we have been involved in came to fruition. Following a public consultation, in December 2020 the MAS published Environmental Risk Management Guidelines for asset managers, which we contributed to. The guidelines set out sound practices in relation to asset managers' governance, risk management and disclosure of environmental risks.

In Hong Kong, we were invited to join the Security and Futures Commission's (SFC) Technical Expert Group (TEG). Through the TEG, we contributed to the

## CALLING FOR GREATER ACTION ON CLIMATE CHANGE

In 2020, we saw several countries raising their climate ambitions. Japan (2050), China (2060) and Hong Kong (2050) made net zero pledges. In Europe, the European Commission presented its 2030 Climate Target Plan, which sets out how the EU will reduce greenhouse gas emissions by at least 55% by 2030.

BNPP AM, as an active member of the IIGCC policy group, called on the European Commission and EU member states to raise Europe's greenhouse gas emissions reduction target to ensure "at least" a 55% reduction in emissions by 2030. This was supported by the publication of a new IIGCC report, "[Ambitious EU 2030 action essential for achieving net zero emissions](#)", and a press release to which we contributed. A letter calling for at least a 55% reduction target was signed by CEOs from more than 150 organisations and presented to the

Executive Vice President of the European Commission, Frans Timmermans. In May, BNPP AM joined the European Green Recovery Alliance, an appeal to support post-pandemic "stimulus transformation plans" that put the fight against climate change and biodiversity loss at the centre of Europe's economic policy. In a joint letter, the alliance calls for recovery efforts to focus on three sectors:

- energy retrofits of dwellings, buildings and offices the public and private sectors,
- development of decarbonised mobility, electric vehicles, soft mobility infrastructure and public transport,
- expansion and storage of renewable and decarbonised electrical energies or heat.

SFC's Consultation Paper on the Management and Disclosure of Climate-related Risks by Fund Managers, which was released in October 2020. The SFC proposes to amend the Fund Manager Code of Conduct to "require fund managers to take climate-related risks into consideration in their investment and risk management processes as well as to make appropriate disclosures to meet investors' growing demand for climate risk information and to combat greenwashing".

We also contributed to the development of ESG policies, recommendations and frameworks through the publication of a working paper by the Financial Services Development Council's (FSDC) titled "Hong Kong - Developing into the Global ESG Investment Hub of Asia". The FSDC is a cross-sectoral advisory body that was established by the Hong Kong government in 2013 to map out the strategic development of the local financial services industry.

In recognition of this work, our Head of Stewardship for Asia Pacific, Paul Milon, became co-chair of the Asia Investor Group on Climate Change's (AIGCC) Engagement & Policy working group.





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