

ESG INTEGRATION GUIDELINES

April 2020



BNP PARIBAS
ASSET MANAGEMENT

The asset manager
for a changing
world

FOREWORD

In a fast changing world, our focus is on achieving long-term sustainable returns for our clients. That is why we committed to integrating sustainable investment practices across the full range of our investment strategies. We believe this is in the financial interest of our clients, and of the economy at large.

BNP Paribas Asset Management (BNPP AM) has been a major player in sustainable investment since 2002, when we launched our first socially responsible investment (SRI) fund and set up a dedicated ESG (Environment, Social and Governance) research team – the precursor of our Sustainability Centre. We were also a founding signatory of the *Principles for Responsible Investment* (PRI) in 2006. Since then, we have strived to implement all six principles ever more effectively and continued to develop our approach, regularly reporting on our achievements in terms of meeting our PRI goals.

In 2011, we established a *Responsible Investment Policy*, based on both responsible ownership and the progressive integration of ESG standards. This included responsible business conduct requirements, based on the adoption of the 10 *UN Global Compact* principles in the selection of issuers as well as strict in-house sector policies to monitor our investments in sensitive sectors.

In 2019, we went a step further and launched our [Global Sustainability Strategy](#) (GSS), a firm-wide blueprint to mainstream and increase BNPP AM's sustainability ambition, including targets to align our investment portfolios and engagement activity with a sustainable future.

As part of the GSS, we define five pillars of sustainable investment – a critical component of which is ESG integration, i.e. having our analysts and portfolio managers incorporate relevant ESG factors into their company or asset evaluation and investment decision-making processes. The process to integrate ESG is guided by these **ESG integration guidelines**. In this document, we first cover why we are integrating ESG factors in our investment philosophy and what our common sustainable investment beliefs are, after which we detail the common ESG Integration Principles we are implementing across our investments.

Critically, to support the process and make sure that all investment strategies managed by BNPP AM are run in line with the ESG Integration Principles, we set up an **ESG Validation Committee**. Between Q4 2018 and the end of 2019, each investment team presented its proposed ESG Integration Process for review and validation.

While we recognise that we cannot do everything overnight, we commit to say what we do, and not overstate, nor overpromise. The principles presented in these ESG integration guidelines apply to our flagship fund range since September 2019, and to all the assets we manage by the end of 2020. For mandates, we will apply as many of these principles as we can, whilst respecting the wishes of our clients, and seeking to promote the increased incorporation of sustainability principles among our clients.

We believe that we should apply these principles to all asset classes, to the extent possible. We will actively promote these guidelines to our existing delegated managers and managers we partner with, and we will not delegate management to new external managers which do not incorporate sustainable investment policies and practices.

We will update these guidelines as our experience and approach evolve.



Jane Ambachtsheer
Global Head of
Sustainability

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DEFINITIONS AND SCOPE

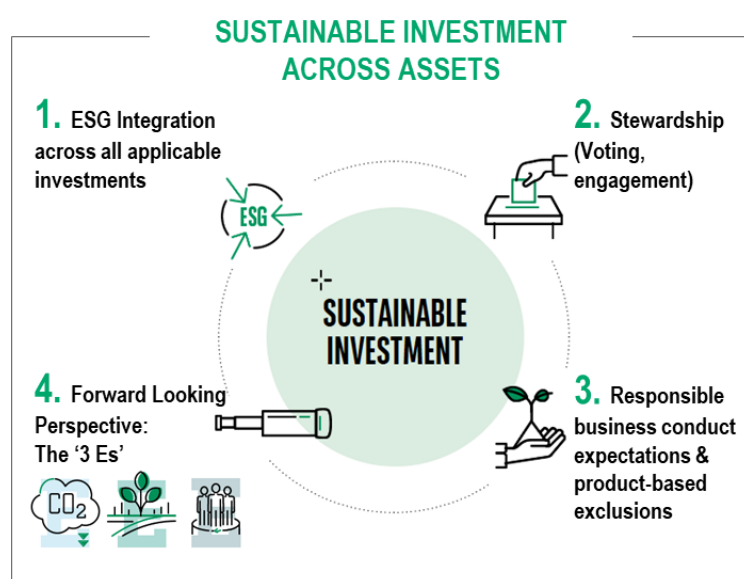
HOW DO WE DEFINE SUSTAINABLE INVESTMENT?

Sustainable investment encompasses a number of elements, all of which are utilised by BNPP AM. These elements are:

1. ESG integration
2. Stewardship (proxy voting, engagement and public policy)
3. Responsible business conduct
4. Forward-looking perspective: the 3Es (Energy transition, Environmental sustainability, Equality & inclusive growth)
5. ‘Sustainable +’ solutions

Together, these approaches strengthen the way we invest, including how we generate investment ideas, construct optimal portfolios, control for risk, and use our influence with companies and markets. Further information on each of these components can be found in the GSS.

BNPP AM – A Five Pillar sustainable investment approach



Source: BNP Paribas Asset Management, April 2020

5. SUSTAINABLE+

Enhanced ESG

(Multi factor, Best in Class, ESG index etc...)

Thematic

(Water, Climate, Environment, sustainable food, Human development etc..)

Impact

(Green bonds, Social investment etc..)



Label ISR



Label Greenfin



WHAT IS THE SCOPE OF SUSTAINABLE INVESTMENT IN THE MANAGEMENT OF OUR PORTFOLIOS?

We are committed to integrating sustainable investment practices across all our assets. The following table provides the detail of what this means in practice, that is, which elements apply to which of parts of our investments.

	FUNDS	MANDATES	THEMATIC, SRI AND IMPACT FUNDS	INDEX FUNDS AND ETFs
STEWARDSHIP	✓	✓	✓	✓
ESG INTEGRATION	✓	✓	✓	✗
RESPONSIBLE BUSINESS CONDUCT	✓	Client opt-out possible	✓	✗
FORWARD-LOOKING PERSPECTIVE: THE '3Es'	✓	✓	✓	✓

- **Stewardship:** Shareholder-engagement and public policy advocacy activities are undertaken on behalf of all of our assets under management.
- **ESG Integration:** Our ESG Integration Guidelines apply to all of our applicable investment processes (and therefore funds, mandates, and thematic funds). However, they are 'non-applicable' for index funds and exchange-traded funds (ETFs). Some index funds and ETFs do however apply specific sustainable investment practices such as a low carbon, thematic or SRI approach.
- **Responsible Business Conduct policies and sector-based exclusions:** To date, we have applied these policies to all our open-ended mutual funds, but related exclusions are not currently formally applied to all client mandates. During 2020, this will become the default approach for new mandates, and we will approach existing clients to apply the policy to existing mandates.
- **Forward-looking perspective – the '3Es':** As set out in Part II of our GSS, we will measure our exposure to a number of key issues across our full assets under management, and undertake related research and engagement, in support of all investment processes.
- **'Sustainable +' solutions:** these include our Enhanced ESG, thematic and impact investing strategies, enabling investors to allocate to specifically to sustainable investment opportunities.

WHY ARE WE INTEGRATING ESG FACTORS INTO OUR INVESTMENT PHILOSOPHY?

Our sustainable investment philosophy rests on four components.

SUSTAINABILITY IS A LONG-TERM DRIVER OF RISKS AND RETURNS

Sustainability is a long-term driver of investment risks, and returns. We believe that, by integrating ESG factors into our investment process, we will gain a deeper and richer understanding of the risks that we face, and will, over the longer term, make better-informed investment decisions for our clients. The energy transition, environmental constraints and social inequality amplify the importance of this perspective.

BELIEF ABOUT MISPRICING

Sustainability factors are imperfectly understood, under-researched and may be mispriced. An absence of common standards, combined with the lack of reliable, audited data and investor heterogeneity in terms of values, objectives, approaches, levels of understanding, and access and ability to process information, creates multiple market inefficiencies. However, this window of opportunity is fast disappearing.

COMPETITIVE ADVANTAGE TO EXPLOIT MISPRICING

We are an early mover, with a deep understanding of sustainability issues, and strong commitment of resources. We have a focused, differentiated approach to analyse material ESG factors and integrate them across investment processes.

TIMEFRAME AND ENGAGEMENT

Our investment horizon is long-term and we promote long-term thinking by the entities in which we invest. Active engagement with companies and regulators allows us to positively influence ESG practices in individual entities, and across the markets we invest in, helping to mitigate risk and promote sustainable economic growth and longer term returns.

OUR COMMON SUSTAINABLE INVESTMENT BELIEFS

Our sustainable investment beliefs further underpin our conviction about embedding a sustainable approach into the core of our investment processes.

1. WE ARE LONG-TERM, FORWARD LOOKING INVESTORS

- ▶ As active investors, we are forward looking. We analyse the past in order to better anticipate future developments; we place greater emphasis on identifying and helping to promote positive change in the future than rewarding (or punishing) past or current behaviour.
- ▶ We are long-term investors, and are prepared to be patient to achieve better results for our clients, and for the world at large.

2. OUR FIDUCIARY DUTY IS ALIGNED WITH SUSTAINABLE INVESTMENT

- ▶ We believe that our fiduciary duty to our clients includes taking environmental, social and governance risks into consideration in our investment decisions.
- ▶ We have a fiduciary duty to our clients to make informed decisions taking reputational, operational and financial risks into careful consideration.

3. STEWARDSHIP IS AN OPPORTUNITY AND AN OBLIGATION

- ▶ Stewardship is an integral, and crucial, part of sustainable investment. As active asset owners, we believe that we should use company engagement, proxy voting and policy advocacy to influence companies and the world for the better.
- ▶ Stewardship, if done correctly, can reduce risk, unlock value and impact the world around us in a positive way through the promotion of improved sustainability practices, disclosure levels and transparency.
- ▶ We believe that engagement is generally more effective than exclusion but divestment can be effective as a last resort.
- ▶ Company disclosure is a fundamental requirement for sound investment decision-making.
- ▶ Collaboration with other long-term investors and stakeholders can help to achieve our common environmental and social aims, particularly when engaging with companies and regulatory bodies.
- ▶ We are also committed to engaging with our clients to promote greater acceptance and implementation of sustainable investing.

4. ESG INTEGRATION HELPS US ACHIEVE BETTER RISK-ADJUSTED RETURNS

As mentioned in our sustainable investment philosophy:

- ▶ Sustainability is a long-term driver of investment risks, and returns (although these risks also manifest in the short-term).
- ▶ Sustainability is imperfectly understood, under-researched and inefficiently priced – different players have different goals, approaches, accesses to information, levels of understanding, integration into investment processes etc. Information and disclosure levels are imperfect, incomplete and inconsistent.
- ▶ We will make better investment decisions, based on a richer and deeper understanding of risks and opportunities, if we systematically and explicitly integrate ESG factors into our investment analysis and investment decision-making.
- ▶ Risk management needs to incorporate ESG risks.

5. A SUSTAINABLE ECONOMIC FUTURE RELIES ON SUSTAINABLE INVESTMENT PRACTICES

- ▶ We can deliver the same or better financial returns in the long term than traditional investments by investing sustainably, while generating positive environmental, social and governance outcomes.
- ▶ The way we invest, and engage with companies and regulators, can help shape the world around us. Effectively managing ESG risks will help promote greater market stability, and more sustainable long-term growth.
- ▶ A 4°C warmer world will be uninvestable – we need to align our investments and use engagement to support successful implementation of the Paris agreement.
- ▶ We should carefully monitor ESG performance, and try to measure the impact of our investments.

6. WALKING THE TALK IS CRITICAL TO ACHIEVING EXCELLENCE

Lastly, we believe that walking the talk is critical to achieving excellence:

- ▶ As a sustainable asset manager, we should match or exceed in our corporate practices, and in disclosure, the standards we expect from the entities in which we invest.
- ▶ Fostering a sustainable culture internally drives sustainable investment by our staff.

OUR ESG INTEGRATION PRINCIPLES

At BNPP AM, analysts and portfolio managers integrate a consideration of relevant ESG factors into their investment decision-making processes. We defined common ESG Integration Principles to support and enhance this process, which apply to all the strategies that are in the scope of our sustainable investment approach.

PHILOSOPHY

- ▶ Sustainability is embedded in our investment philosophy.
- ▶ All investment teams will implement our Global Sustainability Strategy.
- ▶ We recognise that the level of ESG integration achievable over short to medium term horizons varies between asset classes and strategies.
- ▶ Some common principles for ESG integration will apply across all asset classes, while others are asset class or strategy-specific.

INVESTMENT PROCESS

- ▶ Each investment team is fully responsible for their investment process, and all investment research, analysis and decisions resulting from the application of this process.
- ▶ Investment teams are ultimately responsible for the integration of ESG factors in their investment processes, in line with the common ESG Integration Principles.

RESEARCH

- ▶ ESG analysis on individual entities will concentrate on those factors deemed to be material for the respective sector by the Sustainability Centre, with input from the investment teams.
- ▶ Qualitative ESG analysis on individual entities will primarily be undertaken within the investment teams, in collaboration with the Sustainability Centre.
- ▶ We will avoid investing in a public entity without an ESG score, performing qualitative ESG analysis in the absence of a quantitative ESG rating.
- ▶ We will avoid investing in a private entity without performing ESG due diligence (which could include qualitative analysis, or receiving a completed ESG questionnaire).

EXCLUSIONS

- ▶ We will not invest in companies in violation of the UN Global Compact Principles, the UN Guiding Principles on Business and Human Rights or the OECD Guidelines for Multinational Enterprises (OECD MNE Guidelines).
- ▶ Companies struggling to meet the standards laid down in the UN Global Compact Principles, the UN Guiding Principles on Business and Human Rights or OECD MNE Guidelines will be put on a watch list (or not invested in).
- ▶ We will implement BNPP AM's sector policies, in collaboration with the BNP Paribas Group for Group-level policies.

STEWARDSHIP AND ENGAGEMENT

- ▶ We will actively own our passive investments through stewardship, engagement and voting.
- ▶ We will avoid investing in a weakly rated entity (in active portfolios) without actively engaging (or planning to actively engage in the near future) particularly on the key issues identified.
- ▶ Holdings of weakly-rated public entities (in active portfolios) will need to be justified by additional qualitative analysis integrating ESG factors, working closely with the sustainability centre.
- ▶ As a last resort, we may disinvest from weakly rated entities which do not respond to engagement, and which show no sign that they will place greater emphasis on sustainability considerations in the future.

KPIS AND REPORTING

- ▶ Integrating ESG factors into our investment processes should have a measurable positive impact on the ESG characteristics of our portfolios.
- ▶ We should aim to hold portfolios with more positive ESG characteristics than their respective (invested) benchmarks. This includes holding portfolios with a lower carbon footprint than their respective (invested) benchmarks.

Note: The initial focus for the above KPIs is corporate issuer scores (e.g. sovereigns, derivatives and cash excluded at this stage).

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All information referred to in the present document is available on www.bnpparibas-am.com.