

ESG INTEGRATION PRINCIPLES AND GUIDELINES



BNP PARIBAS
ASSET MANAGEMENT

The sustainable
investor 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 investing practices across our investment strategies. We believe this is in the financial interest of our clients, and supports the overall functioning of markets and 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 2019, we launched our first [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 our 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. Our GSS also outlines our philosophy and sustainable investment beliefs. The process to integrate ESG is guided by these **ESG integration principles and guidelines**.

We believe that we should apply these principles and guidelines to all asset classes and regions, to the extent possible. We actively promote these principles and guidelines to our existing delegated managers and managers we partner with.

Importantly, the 2022 update to our ESG Integration Principles and Guidelines comes at a dynamic time in sustainable finance. We have recently launched our Net Zero Roadmap and evolved in line with the Sustainable Finance Disclosure Regulation (SFDR) disclosure regime. Both of these efforts are actively evolving in response to changes in the real economy and Regulation.. We will continue to update these guidelines as our experience and approach evolve.



Jane Ambachtsheer
Global Head of
Sustainability

CONTENTS

| | |
|--|---|
| Foreword | 2 |
| Contents | 3 |
| Introduction..... | 4 |
| How does BNPP AM approach sustainable investing?..... | 4 |
| Our ESG Integration Principles and Guidelines | 5 |
| A. ESG Integration principles | 5 |
| Philosophy..... | 5 |
| Investment Process..... | 5 |
| Research..... | 5 |
| B. ESG Integration guidelines | 5 |
| ESG Research & KPIs | 5 |
| Exclusions | 6 |
| Stewardship and Engagement | 6 |
| C. What is the scope of application of our approach to sustainable investing?..... | 7 |
| Disclaimer..... | 8 |

INTRODUCTION

HOW DOES BNPP AM APPROACH SUSTAINABLE INVESTING?

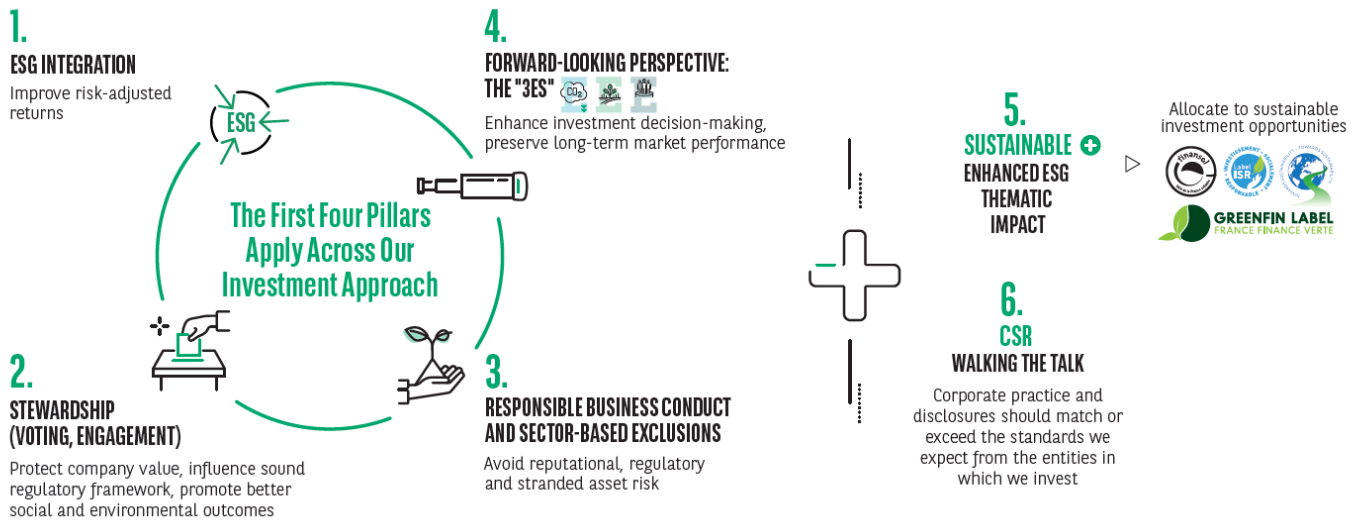
Our approach encompasses a number of elements, including:

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
6. “Walking the talk”: our own Corporate Social Responsibility (CSR) policy as a firm

Together, these approaches strengthen the way we invest, including how we generate investment ideas, construct 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 Six Pillar sustainable investing approach

The 6 pillars of our sustainable investor approach



Source: BNP Paribas Asset Management, December 2022

OUR ESG INTEGRATION PRINCIPLES AND GUIDELINES

At BNPP AM, we define common ESG Integration Principles and Guidelines to support and enhance the process by which analysts and portfolio managers can integrate a consideration of relevant ESG factors into their investment decision-making. For our wider investment philosophy and sustainable investment beliefs please refer to our Global Sustainability Strategy.

A. ESG INTEGRATION PRINCIPLES

PHILOSOPHY

- ▶ Sustainability is embedded in our investment philosophies.
- ▶ 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, region or strategy-specific.

INVESTMENT PROCESS

- ▶ Each investment team is 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 and Guidelines.

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.

B. ESG INTEGRATION GUIDELINES¹

ESG RESEARCH & KPIS

- ▶ We will typically avoid investing in a public entity without ESG analysis, with a process for qualitative ESG analysis available to investors. We maintain minimum coverage thresholds for funds (90% for developed markets and 75% for emerging markets, mid-small caps and high yield), performing qualitative ESG analysis in the absence of a quantitative ESG rating when thresholds are in breach.
- ▶ We will avoid investing in a private entity without performing ESG due diligence (which could include qualitative analysis, or receiving a completed ESG questionnaire).
- ▶ Integrating ESG factors into our investment processes should have a measurable positive impact on the ESG characteristics of portfolios. As a result, we aim to hold portfolios with a more positive ESG scores and a lower carbon footprint than their respective (invested) benchmarks. This data is included in monthly factsheets for in-scope funds.

Note: The above KPIs apply only to corporate and sovereign issuers; derivatives and cash are excluded at this stage.

¹ Please refer to the scope of application of those guidelines in the below “*Scope of our approach to sustainable investing*”

EXCLUSIONS

As outlined in our Responsible Business Conduct Policy (available on [our website](#)):

- ▶ 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) via the process outlined in our Policy².
- ▶ 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 may 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 be “active owners” of our clients’ investments through our stewardship activities.
- ▶ We will avoid investing in a weakly rated entity³ (in active portfolios⁴) without documenting the risks and/or engaging or planning to actively engage in the near future.
- ▶ Where weakly rated entities are non-responsive to engagement, we may use our voting rights to and oppose the following categories of resolutions depending on the market: Financial Statements / Director and Auditor Reports; Discharge of Board and Management or Board Elections. More details are available in our [Governance and Voting Policy](#).

² Given coverage constraints from our data providers, we may not be able to check all investable companies via a systematic process. In those instances, we plan to be transparent on the scope of companies that have been checked.

³ We use decile 10 as a proxy for weakly rated entities (our ESG score range from zero to 99 with issuers ranked in deciles against peers, decile 10 being the lowest one). For more information, see: [ESG Scoring Framework - BNPP AM Corporate English \(bnpparibas-am.com\)](#).

⁴ Excluding mandates that do not follow the Responsible Business Conduct Policy and sovereign entities.

C. WHAT IS THE SCOPE OF APPLICATION OF OUR APPROACH TO SUSTAINABLE INVESTING?

Our goal is to integrate the pillars of our sustainable investing approach across our investment strategies. The following table provides the detail of what this means in practice, that is, which elements apply to which of parts of our investments.

Scope of our approach to sustainable investing

| | Open-ended funds (article 6 funds domiciled in Europe)* | Open-ended funds (article 8/9 funds domiciled in Europe)* | Mandates | Index funds,ETFs and Systematic approaches (art 8/9) | Index funds, ETFs and systematic approaches (art 6) |
|---|---|---|--|---|--|
| BNPP AM ESG Integration Principles and Guidelines | No | Yes | Can be customised by client | No <i>Integration of sustainability practices is defined by the index construction. The target is to align it with BNPP AM approach when feasible**</i> | No |
| BNPP AM Stewardship and Proxy Voting Policies | Yes*** | Yes*** | Yes*** | Yes*** | Yes*** |
| BNPP AM Responsible Business Conduct Policy | Yes | Yes | Systematically proposed to new clients but client opt-out possible <i>Bespoke client ESG exclusions and policies may be implemented</i> | Customised <i>- Synthetic replication: the RBC policy is applied to the assets held by the funds</i> <i>- Physical replication: exclusions are defined by the index construction. The target is to align them with BNPP AM approach when feasible</i> | Mixed <i>- Synthetic replication: the RBC policy is applied to the assets held by the funds</i> <i>- Physical replication: do not apply the RBC policy</i> |

*Excludes all local funds domiciled outside of Europe and joint ventures. For these local affiliated entities for which BNPP AM have operational control, we are working to progressively integrate ESG considerations in the investment process. Where we use external managers for open-ended funds domiciled in Europe, as part of its due diligence process, BNPP AM reviews the manager's responsible investment policies, but these managers are not expected to apply the same standards as the BNPP AM ESG Integration Principles and Guidelines.

**ETF and index strategies aim to replicate an index. The integration of sustainability practices is therefore typically defined by the index construction. Where the indices are solely constructed by third party index providers, BNPP AM only reviews the index construction methodology, including the integration of sustainability. The following elements may be analysed, including, but not limited to: : source and quality of ESG data used, legitimacy and expertise of the ESG data and/or index provider(s), ESG index methodology including ESG sector exclusions and integration of ESG criteria for securities selection and weightings, ESG rating of the index versus the relevant investment universe, requirements of the relevant benchmark in terms of ESG disclosure, Paris Aligned Benchmark (PAB) or Climate Transition Benchmark (CTB) classification. Where indices are customized by the index provider for BNPP AM, BNPP AM will aim to apply the components of our ESG integration guidelines where this is feasible and by applying the index providers tools and data.

*** As per our [Governance and Voting Policy](#), our voting rights are exercised on equities for mutual funds, UCITS, AIF, foreign investment funds, mandates and for Employee Investment Funds for which voting rights are delegated to BNPP AM. Our voting scope is made up of companies for which aggregated positions meet one of the three following conditions: represents 90% of our aggregated stock positions, represents 0.1% or more of the company's market capitalization, ad hoc demand or local market regulations.

DISCLAIMER

BNP Paribas Asset Management France, “the investment management company,” is a simplified joint stock company with its registered office at 8, rue du Port 92000, Nanterre, France, RCS Paris 319 378 832, registered with the “Autorité des marchés financiers” under number GP 96002.

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

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The performance data, as applicable, reflected in this material, do not take into account the commissions, costs incurred on the issue and redemption and taxes.

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