

BNP Paribas Funds (The “Company”)

SICAV under Luxembourg law – UCITS class
Registered Office: 10, Rue Edward Steichen, L-2540 Luxembourg
Luxembourg Trade and Companies Register No. B 33.363

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.
IF IN DOUBT, PLEASE SEEK PROFESSIONAL ADVICE.**

Notice to the shareholders of BNP Paribas Funds Asia ex-Japan Bond

| Shares | ISIN code | Shares | ISIN code |
|-----------------|--------------|-------------------|--------------|
| Classic-CAP | LU0823379622 | Classic RH AUD MD | LU0823379119 |
| Classic-DIS | LU0823379895 | Classic RH SGD MD | LU0823379465 |
| Classic MD | LU0823379549 | Privilege-CAP | LU0823380125 |
| Classic EUR-CAP | LU0823378905 | Privilege-DIS | LU0823380398 |

Luxembourg, April 4, 2022

Dear Shareholders,

We hereby inform you that **BNP Paribas Funds Asia ex-Japan Bond** (the “Sub-fund”) will be transformed and renamed as **BNP Paribas Funds Sustainable Asian Cities Bond** (the “Transformation”), and will be incorporated in the next version of the Hong Kong Offering Document. For Hong Kong shareholders, please pay attention on the share classes above.

The Transformation will be effective on May 6, 2022.

1) Background to and rationale for the Transformation

- Performances of the Sub-fund do not meet expectation as the sub-fund has underperformed its benchmark 50% JPM Asia Credit Index + 50% Markit iBoxx Asia Local Bond Index over the short- and longer-term.
- There is an increasing demand for sustainable fund strategy for prospective growth.
- The transformation into the new strategy of “**Sustainable Asian Cities Bond**” aims to deliver better long-term value-add by:
 1. adopting a thematic approach of capitalising on the positive long-term structural trend for sustainable investing in Asia due to underpinned by regulatory shifts as well as increasing awareness among investors and capital raisers; and
 2. compare to the blend strategy of the existing **Asia ex-Japan Bond** strategy, the new strategy of “**Sustainable Asian Cities Bond**” focuses predominantly on hard currency bonds
- The strategy of the Sub-fund after the Transformation will aim to maximize total returns while exhibiting a strong Environmental, Social and Governance (“ESG”) profile.
- The Investment Manager will apply BNP PARIBAS ASSET MANAGEMENT’s Sustainable Investment Policy as defined in the Prospectus, which takes into account ESG standards and integration in the investment process of the Sub-fund.

2) *The changes of the Sub-fund are the following:*

| Features | BNP Paribas Funds Asia ex-Japan Bond | BNP Paribas Funds Sustainable Asian Cities Bond |
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| Investment objective | Increase the value of its assets over the medium term by investing primarily in Asian (excluding Japan) bonds. | Increase the value of its assets over the medium term by investing primarily in debt securities issued by Asian issuers supporting the development of Sustainable Asian Cities while integrating ESG criteria all along our investment process. |
| Investment policy | <p>This sub-fund invests at least 2/3 of its assets in bonds or other similar securities (such as floaters), denominated in various currencies, of issuers that have their registered offices in or conduct the majority of their business activity in Asia (excluding Japan).</p> <p>The remaining portion, namely a maximum of 1/3 of its assets, may be invested in any other securities, money market instruments or cash, and up to 10% of its assets may be invested in collective investment schemes.</p> <p>In respect of the above investments limits, the sub-fund's investments into debt securities traded on the China Interbank Bond market may reach up to 25% of its assets.</p> <p>To further elaborate, the investment manager adopts a multi-layered investment process relying on specialist skill-sets. The first layer originates in the construction of an enhanced underlay of cash bonds. The second layer superimposes active portfolios of corporate, quasi-sovereign, sovereign and foreign exchange securities. The last layer consists of incorporating top-down driven inputs into the portfolio, including for risk management purposes.</p> <p>The sub-fund may invest more than 10% and up to 25% of its NAV in debt securities issued and/or guaranteed by a single sovereign issuer (including its government, public or local authority) which is below investment grade and/or unrated (for example Pakistan and Sri Lanka).</p> <p>The reason for such concentration is that the composite index (i.e, 50% JPM Asia Credit Index + 50% Markit iBoxx Asia Local Bond Index) will already have exposure to countries rated below investment grade, and hence by sheer benchmark replication activities, the sub-fund will have exposure to below investment grade rated countries. Finally, the sub-fund makes investments based on internal credit assessments and does not explicitly rely on external credit ratings. As such, where the investment team sees mis-pricings and/or opportunities for credit rating upgrades due to a more favorable assessment versus credit rating agencies, it may hold positions in those countries even if they have a below investment</p> | <p>The sub-fund invests at least 75% of its total assets in the investment universe below, i.e. debt securities issued from issuers domiciled in, or exercising the predominant part of their economic activity in, Asian countries such as (China, Indonesia and Korea). Such debt securities include:</p> <ol style="list-style-type: none"> 1. sustainable labelled bonds as defined by International Capital Market Association (i.e. green bond principles, social bond principles, sustainability bond guidelines) including green bonds, social and sustainability use-of-proceeds bonds (i.e. bonds where the proceeds will be used to finance projects, assets or activities that would lead to positive environmental and/or social benefits) of that are related to the development of sustainable Asian cities; and 2. non-labelled bonds aligned with the development of sustainable Asian cities and issued by corporate and public entities domiciled in, or exercising the predominant part of their economic activity in Asian countries, for which part of their business contribute to aspects of sustainable Asian cities. The selected issuers must have at least 20% of their revenues in the activities, which are directly contributing to the theme of sustainable Asian cities, and/or potentially enablers of the development of sustainable Asian cities. <p>The concept of development of sustainable Asian cities is multi-sector and multi-aspect, where investments can be broadly about these five aspects:</p> <ul style="list-style-type: none"> • Enhancing urban mobility within and across Asian cities such as public transport, with a preference for low-carbon options such as public transport • Improving Asian cities' basic infrastructure to operate and thrive, as well as improving cities' resilience to extreme weather events such as storm water management or flood protection • Promoting integrated development of Asian cities to balance a mix of social, economic, nature-based activities such as city's special economic zones or urban wetland installation • Building health and education facilities in Asian cities to increase provision and improve access to healthcare and education |

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| | <p>grade credit rating.</p> <p>As of end of May 2018, the reference index comprised approximately 12% below investment grade and/or unrated bonds, in which the largest exposure is from China (approximately 33% of the reference index).</p> <p>Repurchase transactions, reverse repurchase transactions and similar over-the counter transactions are used for efficient portfolio management up to 100% of the NAV with the aim of raising short term capital in order to enhance the liquidity of the sub-fund.</p> <p>The Investment Manager applies BNP PARIBAS ASSET MANAGEMENT's Sustainable Investment Policy, which takes into account Environmental, Social and Governance criteria in the investment process of the sub-fund.</p> | <ul style="list-style-type: none"> • Supporting innovative and technological solutions to support sustainable development of Asian cities. <p>The Investment Manager applies BNP PARIBAS ASSET MANAGEMENT's sustainable investment policy as set out in the Prospectus, which takes into account ESG standards and integration in the investment process of the sub-fund.</p> <p>BNP PARIBAS ASSET MANAGEMENT has also defined a series of ESG guidelines relating to investments in sensitive sectors including but not limited to palm oil, wood pulp, mining activities, nuclear, coal-fired power generation, tobacco, controversial weapons, unconventional oil and gas and asbestos.</p> <p>The sub-fund would exclude investment in (i) securities issued by companies that violate any of the principles of the United Nations Global Compact or OECD Guidelines for Multinational Enterprises and (ii) securities issued by companies from the sensitive sectors above that do not comply with the guidelines defined by BNP PARIBAS ASSET MANAGEMENT.</p> <p>The remaining portion, namely a maximum of 25% of its total assets, may be invested in any other debt securities, ancillary liquid assets ((i.e. bank deposits at sight) for maximum 20% of the assets; money market instruments for maximum 10% of the assets, and other collective investment schemes for maximum 10% of the assets of the sub-fund.</p> <p>In respect of the above investments limits, the sub-fund invests at least 60% in investment grade debt securities of its total assets.</p> <p>The sub-fund may invest in non-investment grade debt securities rated above B- (S&P) or B3 (Moody's) (i.e. debt securities rated between BBB- to B- (S&P) or Baa3 to B3 (Moody's)) for up to 40% of its total assets, Within the non-investment grade debt securities portion, the sub-fund may invest in perpetual callable debt securities for up to 20% of its total assets.</p> <p>In the event that the ratings criteria are not met due to downgrades, the investment manager shall adjust the portfolio's composition in the best interests of investors and in the timeliest manner.</p> <p>The sub-fund may invest in sovereign debt securities but it does not contemplate to invest more than 10% of its total assets in securities issued by or guaranteed by any single country (including its government, a public or local authority of that country) with a credit rating below investment grade and/or unrated.</p> <p>The sub-fund's total investments into debt securities traded on the China</p> |
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| | | Interbank Bond market may reach up to 25% of its total assets. After hedging, the sub-fund exposure to currencies other than USD may not exceed 5% of its total asset. |
| Summary of differences for: <ul style="list-style-type: none"> Investment policies Investment strategies Asset Allocation Universe | <p><u>Investment Policy and Strategy</u></p> <p>While both strategies seek to increase the value of assets by investing in a common geographic area of focus (Asia ex-Japan), the Sustainable Asian Cities Bond strategy has a deeper level of ESG-integration. It adopts a thematic approach, focusing on sustainable-labelled bonds and bonds aligned with the “sustainable Asian cities” concept, rather than the more broad-based approach of the Asia ex-Japan Bond.</p> <p><u>Asset Allocation</u></p> <p>The Asia ex-Japan Bond strategy invests at least 2/3 of its assets in bonds or other similar securities, denominated in various currencies, of issuers that have their registered offices in or conduct the majority of their business activity in Asia (excluding Japan).</p> <p>The Sustainable Asian Cities Bond strategy invests at least 75% of its total assets in debt securities issued by Asian entities supporting the development of Sustainable Asian Cities.</p> <p>The Sustainable Asian Cities Bond strategy, also invests at least 60% in investment grade bonds while the Asia ex-Japan Bond does not have this criteria.</p> <p><u>Universe</u></p> <p>Both strategies have a similar geographic area of focus, which is Asia ex-Japan. However, in terms of the investment approach, there are differences.</p> | |
| Ongoing Charges Ratio | Classic: 1.63% Privilege: 1.03% | Classic: 1.28% (estimated) Privilege: 0.73% (estimated) |
| Management Fees Ceiling | Classic: Up to 1.25% Privilege: Up to 0.75% | Classic: Up to 0.90% Privilege: Up to 0.45% |

Operating Parties, Dividend and Distribution Policy, Order Trade Date, NAV Calculation and Publication Date, Orders Settlement Date, Risk Management Process (Commitment Approach), Use of Derivatives, Specific Market Risks, Accounting Currency, and any other characteristic not included in the above table are the same in both strategies.

As a result of the Transformation, “Environmental, Social and Governance Risk” (as below) will be considered as a relevant risk to the Sub-fund.

Environmental, Social and Governance Risk

- *The use of ESG standards and analysis may affect the sub-fund’s investment performance and, as such, the sub-fund may perform differently including underperforming compared to similar funds that do not use such standards.*
- *The use of ESG criteria may also result in the sub-fund being concentrated in companies with ESG focus and its value maybe more volatile than that of fund having a more diverse portfolio of investments.*
- *ESG-based exclusionary standards used by the sub-fund may result in the sub-fund foregoing opportunities to buy certain securities when it might otherwise be advantageous to do so, and/or selling securities due to their ESG characteristics when it might be disadvantageous to do so.*
- *In evaluating a security based on ESG standard, the investment manager may use information and data from third party providers, which may be incomplete, inaccurate or unavailable.*

- *Investment selection of the sub-fund is based on subjective judgement from the investment manager. The investment manager may incorrectly assess the ESG characteristics of a security and may wrongly exclude eligible security.*
- *Due to the lack of standardized taxonomy, the investment manager may not apply the relevant ESG standards correctly or that the sub-fund could have indirect exposure to security which do not meet the relevant ESG standards used by the sub-fund.*
- *ESG standard and expectation are evolving. There is a risk of style drift within the investment limits of the sub-fund.*

3) Actions to be taken

What can you do if you do not accept the Transformation?

Hong Kong shareholders of the Sub-fund who do not accept the Transformation may ask the redemption of their shares free of charge from the date of this notice until 6pm Hong Kong time on **Thursday, 5 May 2022**.

Alternatively, shareholders may also convert their investments in the Sub-fund free of charge, into another SFC-authorized sub-fund of the Company from the date of this Notice until 6pm Hong Kong time on **Thursday, 5 May 2022**.

Please refer to the Hong Kong Offering Document of the Company for details of the procedures for placing redemption and conversion requests in respect of the shares; as well as for the details of the sub-fund which you want to convert into.

What should you do if you accept the Transformation?

Hong Kong shareholders of the Sub-fund who accept the Transformation mentioned above have NO FURTHER ACTION to take.

4) Portfolio Rebalancing

To facilitate the Transformation, the portfolio will be rebalanced by selling at least 75% of the existing holding where possible ahead of the Transformation during the rebalancing period from **29 April to 5 May 2022**. As a result, it is intended that the portfolio of the Sub-fund will be aligned with the new investment objective and policy by 6 May 2022.

The Sub-fund will bear the transaction costs (brokerage fees, stamp duties, taxes, custodian commission and charges paid to stock exchanges) associated with rebalancing the portfolio during the rebalancing period. When these transaction costs are incurred, **shareholders who remain in the Sub-fund during the rebalancing period will bear such costs**. Such transaction costs are not expected to be significant and are estimated to be 0.37% of the NAV of the Sub-fund (i.e. estimated to be USD 137,000).

5) Tax Consequences

The tax position of shareholders in Hong Kong, in respect of their holdings, will generally not be affected following the transformation.

6) Documents Available for Inspection

Copies of the current Hong Kong Offering Document, the Articles of Association of the Company and the latest financial report are available upon request, free of charge, at the office of the Hong Kong Representative – BNP PARIBAS ASSET MANAGEMENT Asia Limited at 17/F, Lincoln House, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong and on the website at <http://www.bnpparibas-am.hk>¹. Shareholders should refer to the Hong Kong Offering Document of the Company for details.

7) Other information

The changes would not materially change the overall risk profile of the Sub-fund. There would be no change in the operations or the manner in which the Sub-fund is being managed. Further, the change would not materially prejudice the existing investors' rights of interest.

The Management Company will bear all costs and expenses (except transactions costs for portfolio rebalancing) associated with the preparation and completion of the Transformation. There are no unamortised preliminary expenses outstanding in respect of the Sub-fund.

The Board of Directors of the Company accepts the responsibility for the accuracy of the contents of this Notice. This Notice will also be communicated to any potential investor before subscription. Please refer to the Hong Kong Offering Document of the Company for any term or expression not defined in this notice.

Hong Kong shareholders may contact BNP PARIBAS ASSET MANAGEMENT Asia Limited, the Hong Kong Representative of the Company, at (852) 2533 0088 for any questions.

Best regards,

The Board of Directors

¹ Investors should note that this website has not been reviewed by the SFC.