For professional investors - Marketing communication - January 2020

A MULTI-FACTOR & SUSTAINABLE APPROACH TO EUROPEAN EQUITIES

BNP PARIBAS
ASSET MANAGEMENT

The asset manager for a changing world

A MULTI-FACTOR APPROACH TO EUROPEAN EQUITIES CAN SATISFY BOTH OUTPERFORMANCE AND SUSTAINABILITY OBJECTIVES

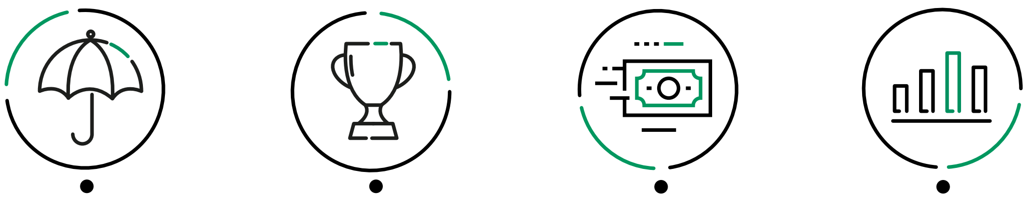
In our view, European equities are attractive from a valuation standpoint. Diminished Brexit risk and ongoing support from the ECB means investors may well be tempted to increase their exposure to European equities after their significant underperformance versus US equities over the last decade.

Such investors are likely to be interested in strategies offering core exposures to European equities with the potential to deliver excess returns while respecting sustainable investment criteria. BNP Paribas Asset Management has run such a strategy since July 2016. Our multi-factor equity strategy has consistently delivered an excess return versus the MSCI Europe index on an annualised basis while integrating environmental, social and governance (ESG) and climate change objectives.

CONSISTENT EXCESS RETURNS OVER THE LONG TERM, WITH RISK MANAGEMENT IN PLACE

Among the various developed equity markets, the European equity market is, in our opinion, by far the most undervalued. We believe it offers an attractive long-term investment opportunity.

The quantitative equity team at BNP Paribas Asset Management has developed a sustainable multi-factor strategy that has the potential to deliver excess returns on a regular basis and offers a well-diversified and liquid exposure to European large-cap stocks. Our strategy is fully systematic. It combines four factors; low volatility, value, quality and momentum. These are the factors that have proven to be key drivers of equity returns over the long term.



LOW VOLATILITY
involves overweighting stocks with the lowest volatility

QUALITY
involves overweighting the stocks of the most profitable companies

VALUE
involves overweighting the cheapest stocks

MOMENTUM
involves overweighting stocks with the strongest upward trend

The strategy's investment objectives are threefold:

Generation of sustained alpha over the long term

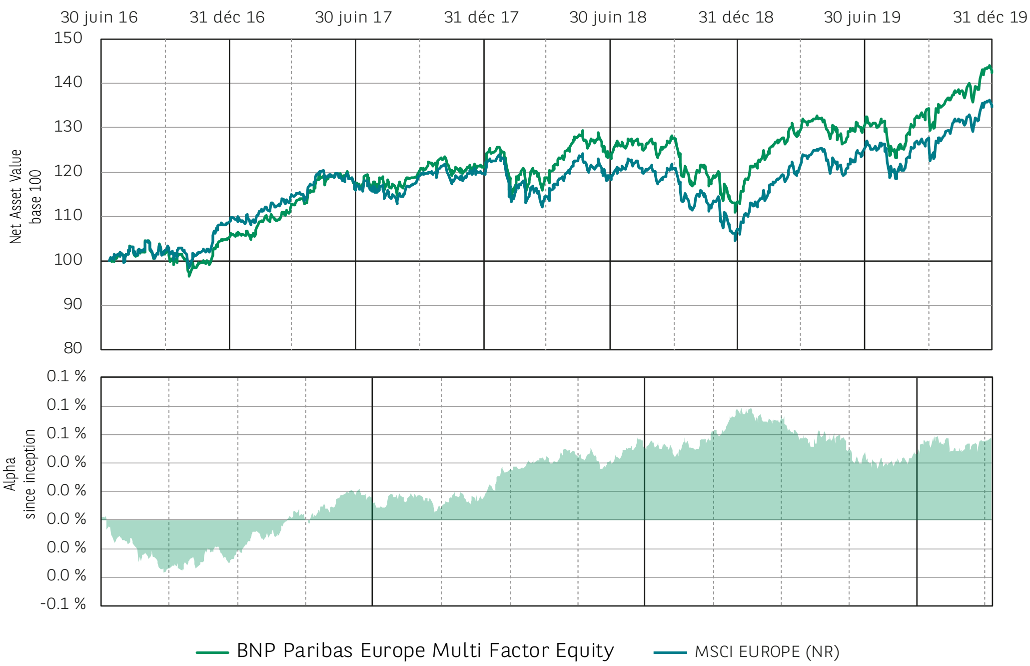
Rigorous control of the investment risks

Integration of ESG and climate change objectives obligation

Since its inception, the strategy has delivered a return of 10.7% versus 9.0% for the MSCI Europe Index, i.e. an excess return of 1.7%. Exhibit 1 shows the cumulative excess returns since inception.

Over that period, the tracking error was limited to 2.9% and the equity beta was equal to 1. The strategy invests only in stocks from the index; there is no exposure to off-benchmark stocks. The strategy delivers a pure alpha, exclusively derived from the equity factors listed above. We offer investors this strategy both in the form of a segregated mandate or via a co-mingled UCITS investment fund..

Exhibit 1: Consistent outperformance over the MSCI Europe index, with a limited Tracking Error



Management, as of December 2019. Past performance is not indicative of future performance. Denominated in EUR, gross of fees.

	PERFORMANCE gross of fees (since 07/2016)				Risk Measures			
Returns in EUR (gross of fees)	1Y	2Y	3Y	Since inception*	Volatility	Tracking Error	Equity Beta	Information Ratio
BNP Paribas Europe Multi Factor Equity	25.6%	8.4%	10.7%	10.7%	9.6%	2.9%	0.99%	0.6%
MSCI Europe Index	26.0%	6.1%	7.5%	9.0%	9.8%			

Source: BNP Paribas Asset Management, as of December 2019. Past performance is not indicative of future performance. Denominated in EUR, gross of fees.

ESG INTEGRATION AT EACH STAGE OF THE INVESTMENT PROCESS

Sustainable investment objectives – and in particular ESG standards – are fully integrated into each stage of the investment process: they are inherent to our investment philosophy, portfolio construction and reporting. Sustainable investing is now a core strategic component. Integrating sustainability objectives has become crucial in meeting investors' expectations and needs. That is why BNP Paribas Asset Management's quantitative equity investment team manages two ESG integration objectives in addition to the exclusions already in place:

- An increase by 20% of the portfolio ESG score versus the benchmark ESG score
- A reduction by 50% of the portfolio's carbon footprint versus the benchmark carbon footprint
- Exclusion of BNP Paribas Sector Policies, United Nations Global Compact and ESG decile 10

For multi-factor investing, this means going beyond exclusions to focus on ESG integration at the portfolio construction level. Sustainability is an explicit objective of the investment strategy. In light of this, our strategy recently received both the following sustainable investment labels:

The French Finance Ministry's **Socially Responsible Investment (SRI)** label certification. This was put in place to improve SRI visibility for investors in France and Europe. This certification enables professional and non-professional investors to easily identify investment products that incorporate ESG criteria into their investment policy.

The **Quality Standard for Sustainable and Socially Responsible** label developed at the initiative of Febelfin and in line with EU proposals[1]. This label aims to instil trust and reassure potential investors that the financial product is managed with sustainability in mind and is not exposed to highly unsustainable practices.

1 https://ec.europa.eu/info/publications/180524-proposal-sustainable-finance_en

In Table 2, we illustrate the significant improvement in the portfolio's ESG score. Indeed, the proprietary ESG decile, created by BNP Paribas AM's Sustainability Centre, is 3.77 versus 4.78 as of 31 December 2019. The ESG decile is on a scale from 1 to 10: 1 being the best, 10 being the worst. In this case, the improvement in terms of ESG is 21% versus the ESG score of the MSCI Europe index.

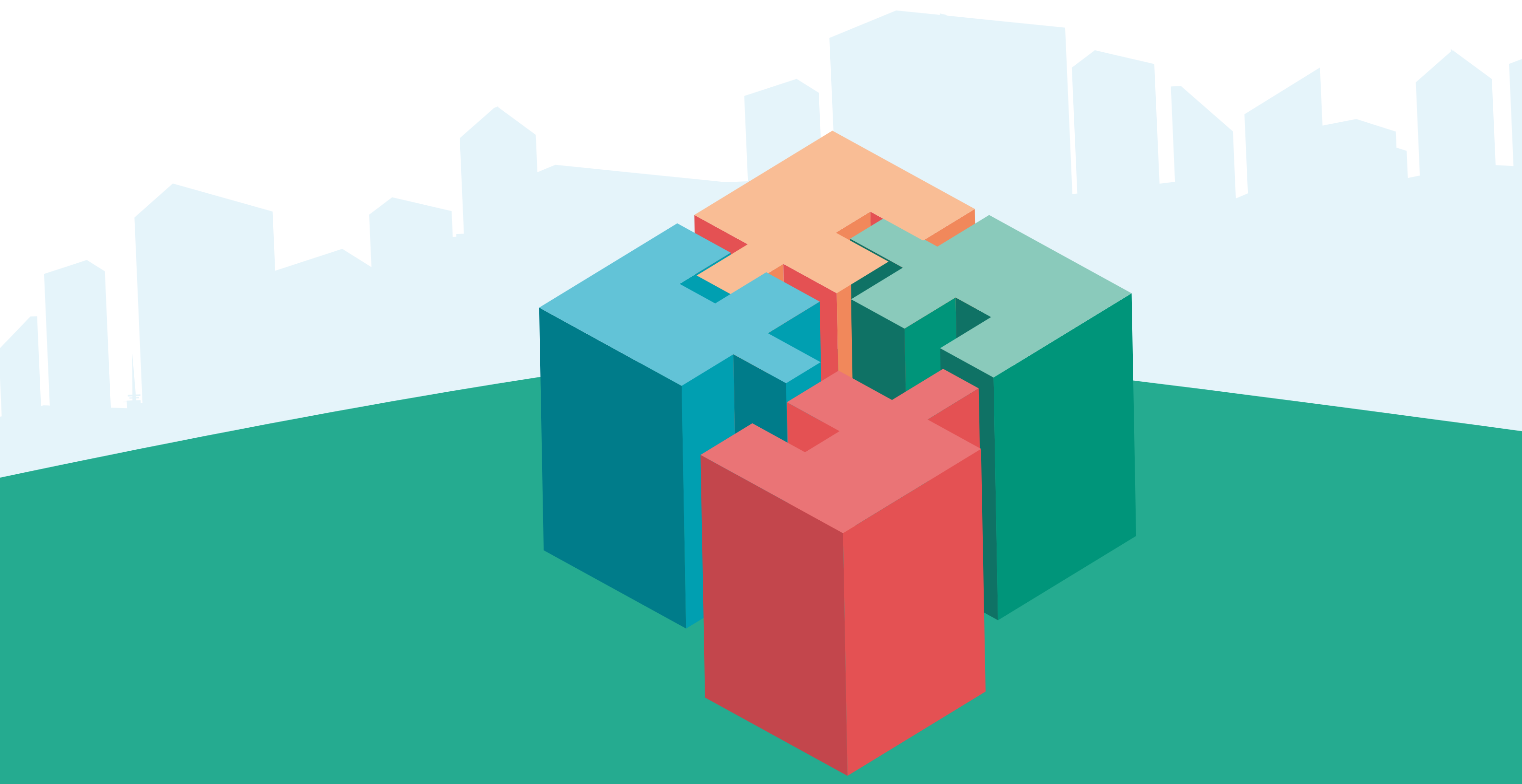
Table 2: Comparison of the ESG decile of European multi-factor equity strategy versus MSCI Europe Index

ESG/Carbon	BNP Paribas Europe Multi factor Equity	MSCI Europe Index
ESG score	3.76	4.77
ESG improvement	21.0%	
Carbon Intensity	285.8	600.7
Carbon Improvement	52.0%	

Source: BNP Paribas Asset Management, Carbone4, as of December 2019.

COMBINING A MULTI-FACTOR APPROACH AND SUSTAINABILITY IS FEASIBLE IN THE EUROPEAN EQUITY MARKET

Our Europe multi-factor equity strategy is an excellent example of an active approach fulfilling several investment objectives: excess return over the MSCI Europe Index, control of the investment risks (Tracking Error, beta, etc.), while integrating sustainability objectives.



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

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