TALKING HEADS PODCAST

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BOLD STEWARDSHIP TO ACHIEVE ESG OBJECTIVES

Daniel Morris: Hello and welcome to the BNP Paribas Asset Management Talking heads Podcast. Every week, Talking heads will bring you in-depth insights and analysis through the lens of sustainability on the topics that really matter to investors. In this episode, we'll be discussing stewardship.
I'm Daniel Morris, chief market strategist, and I'm joined by Jane Ho, head of Stewardship for APAC. Welcome, Jane, and thanks for joining me.

Jane Ho: Thanks, Daniel. Very happy to be here today with you.

Daniel Morris: We've seen an increasing trend over the years of engagement by companies and by investors with companies to achieve sustainability objectives. Stewardship plays a big part. But for listeners who maybe aren't quite so familiar with this part of the investment universe, could you explain how you define stewardship and go into the changes that you've seen over the last couple of years in terms of stewardship in Asia?

Jane Ho: At BNP Paribas Asset Management, we believe that economic sustainability is essential to safeguard long-term returns. We've identified three preconditions, which we call the three E's, and these are the energy transition, environmental sustainability and equality and inclusive growth. So what stewardship means is using our investments and influence with both companies and policymakers to achieve these goals. The main tools are voting engagement. That's with companies and engagement with policymakers through policy advocacy. Coming on to Asia, what's really changed, we've seen a big step-up in activity, and we've seen growing recognition of the importance of stewardship globally, but particularly for this region, which is the battleground for issues like climate change and having a just energy transition, particularly taking into account local communities. From an investor perspective, we've seen more resources dedicated to this area. We're seeing more developed policies and responses from investors voting, for example, having clearly defined policies so that people know and have expectations on how you will vote, incorporating ESG considerations into these policies as well as engagement around corporate governance and climate issues. We've also seen investors using a variety of different tools. These could be asking questions at AGMs, sending private letters to board members, and filing and supporting climate or social resolutions traditionally seen as quite confrontational due to our culture in Asia, having different thresholds for filing. We have seen a step-up in this activity in Asia as an effective means to bring about change. For example, in Japan last year, while we've seen many resolutions previously filed by NGOs, we saw the first institutional investor filed a climate resolution against a Japanese company – a utility in this case. Although the resolution didn't pass, it did send an important signal to companies on what investors are looking for, garnering, in one instance, over 25% support.

Daniel Morris: With the three E's, there's a lot of topics that you need to be addressing. Could we could on some of the key trends that you see for 2023?

Jane Ho: One area is an increased focus on nature and biodiversity. You might be quite familiar with Climate Action 100+, which is the largest collaborative engagement programme globally, with over 700 investors representing over USD 70 trillion in assets under management, collaboratively engaging with the highest emitters, in other words, corporates globally on climate issues. We saw the soft launch of a Nature Action 100 at COP 15 at the end of last year. We'll see investors starting to engage hopefully this year with companies on reducing nature loss. We're very active in this area and we'll be working with industry peers to develop investor expectations for companies and joining these corporate engagements. Secondly, whilst there has been quite a big focus on climate, social will be a focus area this year. For example, on the climate side, we can't do decarbonisation in isolation, ignoring communities or workers dependent on the traditional energy source. In Asia, particularly this year, there'll be a big focus on early coal phaseout and how we can get this done, how we can bring public and private markets together to finance this. A just transition will be a big component of that. Sticking with the social side, regulation will also play a role. European supply chain due diligence will likely impact Asian suppliers, particularly in areas like EVs (electric vehicles) or renewable components. Of course, we'll likely to see more regulation. We see quite a lot of concerns over greenwashing. Not surprising given that the industry has grown so quickly, and stakeholders are demanding and want to see more transparency. This is quite welcome.

We'll see likely more global developments to define ESG investing as we've seen with the EU SFDR, the UK FCA and in this region from SFC and the M&S and in Hong Kong and Singapore. This year we're likely to see more of these guidelines, including developments of the taxonomy space, but also on the use of ESG data guidelines. So, there's quite a lot going on this year.

Daniel Morris: Now, BNP Paribas Asset Management certainly prides itself on having been involved in ESG topics and investment management for years. But one can't sit on one's laurels and we're always looking for new ways to engage, new ways to have an impact. Can you tell us about some of the new things we might anticipate from BNP Paribas Asset Management this year?

Jane Ho: At BNP Paribas Asset Management, we believe in bold stewardship, so we'll continue to expand and step up our work. What do I mean by bold? On the voting side, we're not afraid to say no to management proposals. We have a fairly high opposition rate of 30%. Last year we supported 90% of climate shareholder proposals. We'll continue to be very active on this front and we'll continue to strengthen our voting policy. This year, for example, on gender diversity, we've raised our threshold for the Asia region from 15% to 20% for minimum female board representation. For reference, we're raising this in the developed markets from 30% to 35%. What this means is that we will vote against all male board members at companies that don't fulfil or reach our minimum threshold on gender diversity. We'll do that in conjunction with engagement on this issue ahead of AGMs. Last year we reached out to 40 companies and half of them improved the gender of their board in line with our policy. We're likely to do the same this year, and perhaps more engaging with our new policy. On corporate engagement, we'll be expanding to new areas. Some of these were under the radar previously. One, for example, is hazardous chemicals. With other investors we are collaborating on the systemic issue of chemical pollution, which is leading to a lot of public health problems and is a driver of biodiversity loss affecting insect and bird populations, for example. One particular concern is the 'forever chemicals' group, chemicals that don't break down in nature. These are pervasive in everyday life: we find these in make-up, raincoats, pesticides. One study found that soil and rainwater all over the world contain forever chemicals levels that exceed the safety level set by authorities. So, it's important for us to engage with companies on this. Regulations will be coming on fast and not just on the liability management side, but there will also be opportunities and safer alternatives. Another area we're expanding to is sustainable proteins. We're one of five founding member investors of a new platform in Asia engaging with food companies on sustainable proteins. The platform will be engaging with over 40 Asian food companies this year: dairy companies, chicken producers, seafood producers, but also companies along the whole value chain including manufacturers, retailers, hotels, restaurants. By sustainable proteins, I mean not just looking at alternative proteins, like plant-based or technology alternatives to animal proteins. But also responsible animal proteins, taking into consideration factors like climate, deforestation, antibiotic use, traceability and animal welfare. Last but not least, bringing us back the full circle to Nature Action 100, we're one of a group of 11 investors spearheading this initiative, so I expect us to be very active in this area. More to come.

Daniel Morris: Thanks, Jane, very much for joining me.

Jane Ho: Thanks, Daniel. And very happy to be here today.