



THE IMPORTANCE OF GOVERNANCE

- **Governance is crucial to our investment approach.**

As long-term investors, we view a company's corporate governance arrangements and the quality of its senior management as important factors in all our investment decisions. Transparency with regard to accountability and disclosure, and trust in the competence and judgement of management are prerequisites for building the long-term relationships we seek with the companies we invest in. At the same time, we regard these criteria as critical for the long-term operating and financial performance of a company. This is reflected in the weighting we give to corporate governance in the ESG weighting matrix we use as an overlay for all our investments.

- **Engagement is pivotal to our active approach to asset management.**

When we make a decision to invest in a company, we are looking not only at the attractive features we see in it today but also at how we can engage with management over time to help drive continual improvements in its operating, financial and sustainability performance. As we view governance to be crucial to a company's performance across all three of these areas, regular and frequent engagement with management on governance issues – transparency, disclosure, accountability, remuneration and diversity – is a high priority.

COMPONENTS OF SUSTAINABLE INVESTMENT

1. ESG INTEGRATION

At the core of all our investment processes, analysts and portfolio managers integrate a consideration of relevant ESG factors into their company, asset and sovereign evaluation and investment decision-making processes. As reflected in our investment beliefs, this process allows them to identify and assess areas of risk or opportunity which may not be understood by all market participants, and which provide them with a relative advantage. The process to integrate and embed ESG factors is guided by formal ESG Integration Guidelines and overseen by an ESG Validation Committee. Our goal is that by 2020, every investment process – and by definition, every investment strategy – will have been reviewed and approved by this Committee. Further information is available in our ESG Integration Guidelines and Policy.

2. STEWARDSHIP

BNPP AM is an active owner. We are thoughtful and diligent investors in companies, and have detailed proxy-voting guidelines on a range of ESG issues. We believe that meaningful engagement with issuers can enhance our investment processes and better enable us to successfully manage long-term risk for our clients.

Our portfolio managers and experts in our Sustainability Centre are in regular contact with investee companies, emphasising long-term value creation. In addition, we aim to meet country representatives more often to discuss national climate change commitments and policies, as well as a wider range of ESG considerations.

We collaborate closely with our peers and civil society organisations to formulate and communicate our vision to make a positive difference to people's futures, for example through our participation in the Climate Action 100+ initiative (see next page, where we outline the priority elements of our Stewardship Strategy).

3. RESPONSIBLE BUSINESS CONDUCT EXPECTATIONS AND PRODUCT-BASED EXCLUSIONS

We expect companies to meet their fundamental obligations in the areas of human and labour rights, protecting the environment and ensuring anti-corruption safeguards, wherever they operate, in line with the UN Global Compact Principles. We engage with companies where they fall short, and exclude the worst offenders.

We also have a series of sector policies that set out the conditions for investing in particular sectors, and guide our screening requirements and engagement.

We do this because if not conducted properly the activities in question could cause serious social or environmental damage (such as palm oil).

We have another set of policies that commit us to exclude particular sectors or activities (tobacco, synthetic crude oil from tar sands, coal, controversial weapons or asbestos), as we deem them to be in violation of international norms, or to present unacceptable harm to society or the environment, without counterbalancing benefits. These are generally sectors where engagement makes little sense.

Our full approach is documented in our Responsible Business Conduct Policy.

4. FORWARD-LOOKING PERSPECTIVE – THE ‘3Es’

The most successful investors draw on the lessons of the past, while focusing on the future: particularly in a rapidly changing world. We believe the following three issues will be critical pre-conditions for a more sustainable and inclusive economic system: the energy transition, environmental sustainability and equality. We have established a set of targets and developed key performance indicators (KPIs) relating to these ‘3Es’, addressing how we will align our investment research, portfolios, and company and regulatory engagement in support of each. These are further discussed in Part II, where we present our 2019-22 Sustainable Investment Roadmap.

STEWARDSHIP IS CENTRAL TO HOW WE INVEST

Our Stewardship Strategy includes the following categories of engagement:

- 1. Public policy.** We actively engage with regulators, helping to shape the markets in which we invest and the rules that guide and govern company behaviour. Public policy can affect the ability of long-term investors to generate sustainable returns and create value. It can also affect the sustainability and stability of financial markets, as well as social, environmental and economic systems. We have constructively and effectively engaged with policymakers over many years, with a particular focus on corporate disclosure, climate policy and corporate governance.
- 2. Engagement related to voting, governance and quality of management.** A major priority for us as part of our ongoing dialogue with the companies in which we invest is to promote good governance practices. These include a focus on long-term sustainable value creation; the protection of shareholder rights; independent, effective and accountable boards; incentive structures that are aligned with the long-term interests of stakeholders; respect for society and the environment; and the disclosure of accurate, adequate and timely information.

3. The ‘3Es’: Energy Transition, Environmental Sustainability, Equality and Inclusive Growth.

These three areas will serve as the focus for our global sustainability engagement efforts in the next three years (see Part II of this document). We will establish an in-depth dialogue with companies, for example, encouraging them to:

- align their strategies with the goals of the Paris Agreement
- improve their environmental footprint (such as water efficiency)
- provide greater opportunities for women and minorities, at all levels of the organisation
- adopt more equitable and transparent remuneration policies, including tax strategies that ensure that wealth is distributed more fairly across the value chain, where value is created.

- 4. Responsible business conduct.** We are committed to engage or exclude companies that appear on our watch list for serious controversies, including those deemed to be in violation of the UN Global Compact Principles. In addition, the Sustainability Centre identifies and engages with other companies that, in our view, face serious controversies, violate other international norms or present significant ESG risks.

Our approach to stewardship, and associated policies, including proxy voting and public policy, are further elaborated upon in BNPP AM’s Stewardship Policy.

BNP Paribas Asset Management is the source for all data in this document as of March 2019, unless otherwise specified.

Investments are subject to market fluctuations and other 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.

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