For professional investors - Marketing communication

EFFICIENTLY COMBINING LOW-VOLATILITY EQUITIES AND SUSTAINABILITY INVESTING

BNP PARIBAS
ASSET MANAGEMENT

The asset manager
for a changing
world

Since 2011, BNP Paribas Asset Management has managed a global low-volatility equity strategy that has delivered better risk-adjusted returns compared to the MSCI World Index. In addition to its performance and risk characteristics, the strategy now integrates sustainability and climate change objectives. In recognition of the integration of environmental, social and governance criteria at the heart of the investment process, the strategy has received two sustainable and responsible investment (SRI) labels.

INVESTING IN GLOBAL LOW-VOLATILITY EQUITIES TO BENEFIT FROM THE LOW VOLATILITY ANOMALY

The global low-volatility strategy developed by BNP Paribas Asset Management's quantitative equity team is based on the research paper **"Low Risk Anomaly Everywhere - Evidence from Equity Sectors"**. We demonstrate that a low-volatility equity strategy can generate higher risk-adjusted returns compared to a high-volatility equity strategy. The Sharpe Ratio is consistently higher across all sectors. It demonstrates that the low volatility anomaly is consistent in equity sector portfolios.

The strategy's objective is to **select the least volatile stocks in each sector** and to avoid any sector bias. Rather than simply reducing the overall volatility of the portfolio, our objective is to build a diversified portfolio exclusively composed of low-volatility stocks, and to ensure that our investment process involves **stringent risk management**. Of particular importance is the Tracking Error minimisation objective. This specific risk control is designed to reduce any deviation of the strategy's performance relative to that of its respective index.

On a risk-adjusted basis, the strategy has delivered a better Sharpe Ratio than the MSCI World Index since inception. This has been a function of:

1. Positive incremental performance relative to the MSCI World Index since inception
2. Lower volatility than that of the MSCI World Index since inception

PERFORMANCE / RISK MEASURES (SINCE 03/2011)

	GLOBAL LOW-VOL EQUITY	MSCI WORLD INDEX
Performance	12.9%	11.9%
Volatility	9.6%	10.6%
Sharpe Ratio	1.01	0.83
Jensen's Alpha	2.75%	
Tracking Error	3.88%	
Equity beta	0.85	

Source: BNP Paribas Asset Management, as of December 2019. This is for illustrative purposes only and should not be used as a basis for making any specific investment, business or commercial decisions. Past performance is not indicative of future performance

Overall, the strategy has delivered what an investor should be able to expect from a global low-volatility equity strategy:

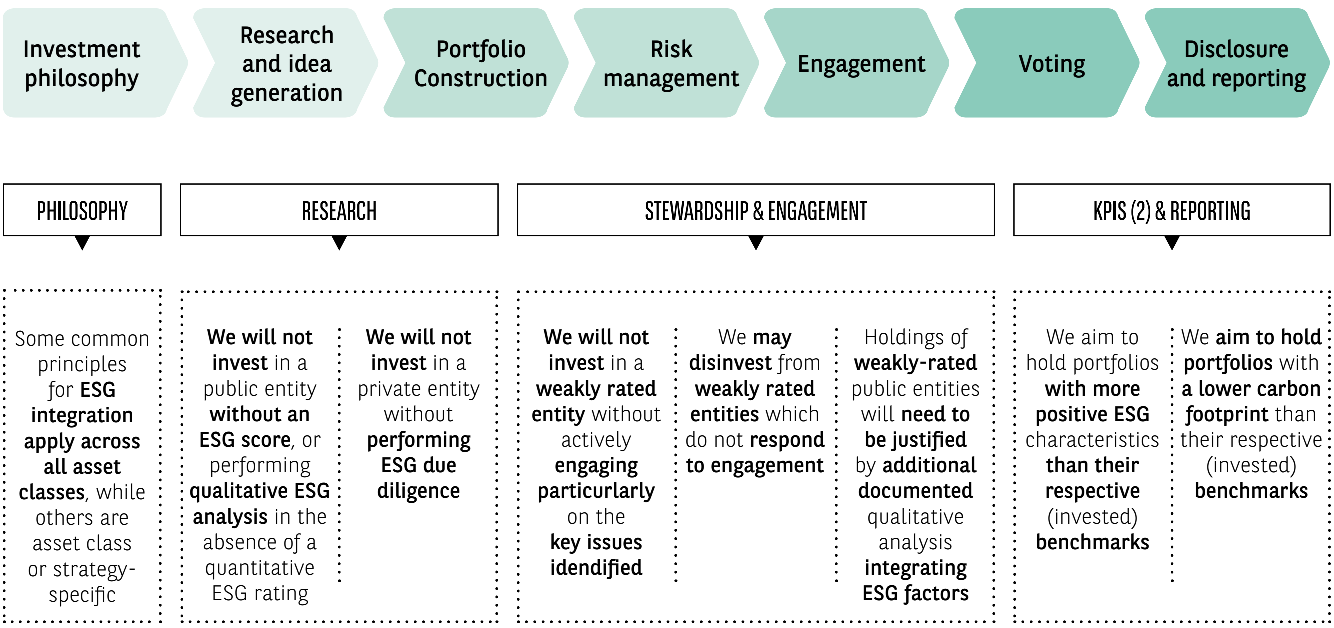
- Selection of diversified low-volatility stocks
- A portfolio with higher risk-adjusted returns than those of the market capitalisation index
- A defensive equity exposure with an equity beta of 0.85
- Stringent risk management and controls
- ESG criteria integration and carbon reduction objectives
- This strategy is available both in the form of a segregated mandate or via a comingled UCITS investment fund.

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

Sustainable investing integrates ESG[1] criteria into each stage of the investment process



1 ESG: Environmental Social and Governance

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

In the case of low-volatility equity 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 Asset Management's Sustainability Centre, is 3.51 versus 4.85 as of 31 December 2019. The ESG decile runs 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 27.6% versus the ESG score of the MSCI World index.

Table 2: ESG score and carbon footprint of global low-vol equity strategy versus MSCI World Index

ESG/Carbon	BNP Paribas Global Low Volatility	MSCI World Index
ESG score	3.51	4.85
ESG improvement	27.6%	
Carbon Intensity	146.1	279.9
Carbon Improvement	47.8%	

Source: BNP Paribas Asset Management, Carbone4, as of December 2019. This is for illustrative purposes only and should not be used as a basis for making any specific investment, business or commercial decisions

EFFICIENTLY COMBINING LOW-VOLATILITY EQUITIES AND SUSTAINABILITY OBJECTIVES

Our global low-volatility equity strategy has delivered some outstanding risk-adjusted returns since its inception in 2011, with higher performance and lower risk than its respective index, the MSCI World Index. Since 2018, the strategy has integrated both sustainability and climate change objectives, which we believe provides a decisive advantage.

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. 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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January 2020 - CREATIVE SERVICES AM - P2001041

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