SUSTAINABILITY AT THE HEART

In a fast changing world, our focus is on achieving long-term, sustainable investment returns for our clients. We recognise that sustainability risks are looming large and that we, as investors, have the opportunity, indeed the obligation, to take action to help achieve the objectives of the Paris Agreement and the Sustainable Development Goals (SDGs).

That is why we have committed to putting sustainability at the heart of our strategy, integrating sustainable investment practices across the full range of our investment strategies. We commit to being a ‘future maker’, using our investments, our voice and our leverage to shape a better future.

We believe this is in the financial interest of our clients and of the economy at large.

A LONG-TERM COMMITMENT

BNP Paribas Asset Management’s commitment to sustainable investment began in 2002 with the launch of our first sustainable fund and the creation of our dedicated environmental, social and governance (ESG) research team. In 2006, we were a founding signatory to the UN-supported Principles for Responsible Investment (PRI). Since then, we have continued to strengthen our commitment, for example, by pledging to align our portfolios with the Paris Agreement goals. In 2017, we created the 25-person, multi-disciplinary Sustainability Centre that provides investment teams with research, analysis and data at company and sectoral levels. The Sustainability Centre also supports teams in developing sustainability-themed products and fully integrating sustainability-related risks and opportunities into investment strategies.

The PRI has assigned BNPP AM the top ‘A+’ rating for the past three years. In doing so, the PRI has highlighted our commitment to integrating ESG criteria and our high degree of involvement in bringing sustainability issues to the attention of the companies and markets we invest in.
SUSTAINABLE INVESTMENT BELIEFS

BNPP AM has established six sustainable investment beliefs:

- **ESG integration helps investors achieve better risk-adjusted returns.** Sustainability is a long-term driver of investment risks and returns. We believe sustainability is imperfectly understood, under-researched and inefficiently priced, with inconsistent levels of disclosure. Investors will make better investment decisions if they systematically and explicitly integrate ESG factors into investment analysis and decision-making.

- **Our fiduciary duty is aligned with sustainable investment.** Asset managers have a duty to clients to make well-informed investment decisions, taking reputational, operational and financial risks into careful consideration. ESG factors are a key tool in doing so.

- **Stewardship is an opportunity and an obligation.** Long-term investors should use proxy voting, company engagement and policy advocacy to influence companies and the world for the better. We believe engagement is generally more effective than exclusion. Divestment can be a last resort.

- **We are long-term, forward-looking investors.** We believe the economic model which will best serve the planet in the long term is one focused on low-carbon, sustainable and inclusive growth.

- **A sustainable economic future relies on sustainable investment practices.** Managing ESG risks will help promote greater market stability and more sustainable long-term growth, while delivering the same, or higher, financial returns.

- **Walking the talk is critical to achieving excellence.** Our corporate practices and disclosures should match or exceed the standards we expect from the entities in which we invest. We should integrate sustainability across our business, including how we manage facilities and engage employees.

COMPONENTS OF SUSTAINABLE INVESTMENT

We define sustainable investment as having the four components below, which we aim to apply consistently across our full range of investment strategies:

1. **ESG integration**
   Integrating ESG factors allows analysts and portfolio managers to identify and assess areas of risk and opportunity which not all market participants may have fully agreed and which can consequently provide them with a relative advantage. It is our goal that by 2020, every investment process – and by definition, every strategy – is aligned with our formal ESG Integration Guidelines and Policy.

2. **Stewardship**
   As an active owner, we believe meaningful engagement enhances investment processes and better enables us to successfully manage long-term risk. This involves regular contact with issuers, emphasising long-term value creation, and meeting officials to discuss national ESG commitments and policies. It also means working closely with peers and civil society groups to formulate and communicate our vision to make a positive difference towards a low-carbon and inclusive economy.

3. **Responsible business conduct and sector-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. We engage with companies where they fall short, and exclude the worst offenders from investment. Sector policies set out the conditions for investing in particular sectors (e.g., palm oil and wood pulp) or commit us to excluding investment in particular activities or sectors (tobacco; coal; controversial weapons; asbestos). These are generally sectors where we believe engagement makes little sense.

4. **Forward-looking perspective – the ‘3Es’**
   We regard three issues as critical pre-conditions for a more sustainable and inclusive economic system – energy transition, environmental sustainability and equality and inclusive growth – and are aligning our investment research, portfolios, and company and regulatory engagements in support of each. We call these the ‘3Es’.

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**GLOBAL SUSTAINABILITY STRATEGY**
In addition to the four components of sustainable investment, we manage EUR 37 billion (as of December 2018) in impact, thematic and socially responsible investment (SRI) strategies for those clients who wish to allocate to more specific sustainable investment opportunities.

**INVESTING FOR A BETTER WORLD**

We will use our investments, our voice and our leverage to shape a better future, embracing our role as part of the real economy and working for the benefit of our clients, and the benefit of all.

Our **Global Sustainability Strategy** is concentrated on those areas where we believe we can have the most impact given our core business: investing.

In considering our approach to the ‘3Es’ (energy transition, environmental sustainability, equality and inclusive growth) we have a range of tools at hand: investment, divestment, stewardship and integration.

- **We can invest** in the companies and sectors that are part of the solution, encouraging their growth and benefiting from their success through our allocation of capital.
- **We can divest** from those companies that we believe are at risk from inevitable structural changes, and whose behaviour differs too much from our beliefs and investor preferences.
- **We can exercise investor stewardship** through proxy voting and engagement – and via discussions with policymakers, regulators and governments.
- **We integrate** our knowledge of and perspectives on the ‘3Es’ into investment processes across asset classes, thus helping to protect and enhance investment outcomes.

**JOIN US IN BEING A FUTURE MAKER**

The financial sector carries a significant responsibility: it is entrusted with managing people’s savings and retirement assets. But our responsibility goes beyond that: we have the potential to influence the behaviour of entities that we invest in as well as the regulatory framework in which we operate.

The current economic, social and environmental system is failing and must be transformed in order for financial institutions to be able to deliver sustainable returns to clients over the long term.

We are committed to using the financial capital we manage on behalf of clients, as well as our human capital, to push towards a more sustainable future. This will benefit investment returns, clients, our employees and society at large. It is by working together that the financial community has the greatest opportunity to be a force for positive change – to be ‘future makers’.

Read the Global Sustainability Strategy by BNP Paribas Asset Management on [https://bnpp.lk/BNPPAMGSS](https://bnpp.lk/BNPPAMGSS)

“*Our ambition is to continually improve our sustainability footprint and investment practices for all of the assets we manage. We believe this will help achieve the best ultimate investment outcomes, supporting effective investment decision making in the short and medium term, while using our leverage to build sustainable economic, environmental, and social systems in the long term.*”

**HELENA VIÑES FIESTAS**
Deputy Global Head of Sustainability
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BNP AM’S KEY INDICATORS ON THE ‘3Es’ AND MAPPING WITH THE SDGS

As an investor, we recognise the role we have to play in contributing to a sustainable future, as outlined by the Paris Agreement and SDGs. The graph below summarises our key performance indicators relating to the ‘3Es’ and maps them against the SDGs. Each indicator will be tracked, monitored and reported on publicly. The full list of objectives can be found in our Global Sustainability Strategy.

ENGAGEMENT
We will engage with companies on these topics, with associated targets and reporting on outcomes

<table>
<thead>
<tr>
<th>E1: ENERGY TRANSITION</th>
<th>E2: ENVIRONMENTAL SUSTAINABILITY</th>
<th>E3: EQUALITY AND INCLUSIVE GROWTH</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Primary Energy Mix</strong></td>
<td><strong>Green share % AUM or total green investments</strong></td>
<td><strong>% of female board members</strong></td>
</tr>
<tr>
<td>&amp; Electricity Energy Mix vs. IEA SDS</td>
<td>(sustainable economic activities, such as those defined by the forthcoming EU taxonomy)</td>
<td>Water footprint of our portfolios</td>
</tr>
<tr>
<td>Carbon intensity (gCO₂/kWh) vs. carbon intensity IEA SDS</td>
<td>Number of companies that commit/ have a policy on No Deforestation, No Peat, No Exploitation (NDPE)</td>
<td>Number or % of companies below sector water efficiency levels operating in water-stressed areas</td>
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<tr>
<td>CO₂ emissions per portfolio</td>
<td>Number of companies that trace and monitor commodity sourcing</td>
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