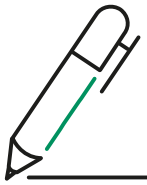


# BNP Paribas AM's alignment with Towards Sustainability ("TS") Quality Standards



## GOVERNANCE

BNP Paribas Asset Management ("BNPP AM")'s Sustainability Centre gathers all our ESG (Environmental, Social, Governance) experts together and drives our approach to sustainable investment. It provides investment teams with research, analysis and data at issuer and sector levels. It also supports investment teams in their efforts to fully integrate sustainability-related risks and opportunities into their investment strategies. Our Global Head of Sustainability who oversees our Sustainability Centre, reports to BNPP AM's Chief Investment Officer. Our sustainability governance structure is the following:

- The monthly Investment Committee has a dedicated sustainability focus and follows up on ESG integration
- The quarterly Sustainability Committee oversees and validates our approach to sustainability is chaired by our CEO and includes Chief Investments Officers, Global Head of Products and Strategic Marketing, Head of Global Client Group, Chief Marketing Officer, Head of Brand and Communication.
- The bi-annual Proxy Voting Committee reviews voting and engagement implementation, oversees voting policy evolutions. It is chaired by our Equity CIO
- BNPP AM France Board of Directors supervises and reviews the sustainability approach and proxy voting policy at least annually
- Our governance is aligned with the BNP Paribas Group sustainability strategy.

## DEDICATED EXCLUSION LIST

### Norm based screening:

We expect companies to meet their fundamental obligations on human and labour rights, protecting the environment and ensuring anti-corruption safeguards, wherever they operate, in line with the UN Global Compact Principles and OECD Guidelines for Multinational Enterprises (OECD MNEs Guidelines).

#### a- United Nations Global Compact:

We use BNPP AM's exclusion list for violation of UNGC principles (updated twice a year and validated by the Sustainability Committee) which is a shared framework, recognized worldwide and applicable to all industry sectors, based on the international conventions in the areas of human rights, labour standards, environmental stewardship and anti-corruption.

#### b- The OECD Guidelines for Multinational Enterprises ("MNE"):

Our second approach for norm-based screening is based the OECD's MNE guidelines which are a similar and detailed shared framework for responsible business conduct.

"The OECD Guidelines for Multinational Enterprises are recommendations addressed by governments to multinational enterprises operating in or from adhering countries. They provide non-binding principles and standards for responsible business conduct in a global context consistent with applicable laws and internationally recognised standards. The Guidelines are the only multilaterally agreed and comprehensive code of responsible business conduct that governments have committed to promoting." (OECD Guidelines for Multinational Enterprise, 2011 Edition)

- Data Provider: Sustainalytics



**BNP PARIBAS**  
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The asset manager  
for a changing  
world

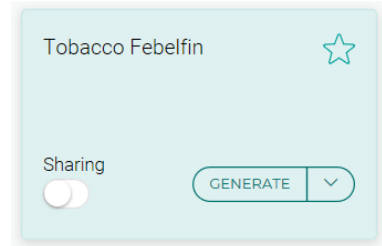
- Second opinion: ESG Analysts at Sustainability Centre
- Final approval: Sustainability Committee

#### Tobacco:

From 1 January 2019 BNPP AM ceased to invest in tobacco manufacturing companies. The policy applies to all of BNPP AM's actively managed open-ended funds and became the default policy for mandates. The threshold is 5% of revenue coming from tobacco companies for the funds that apply to TS label

Data provider: Sustainalytics using screening in "product involvement" and "tobacco exclusion filters"

- Data Provider: Sustainalytics
- Second opinion: ESG Analysts at Sustainability Centre
- Final approval: Sustainability Committee



#### Weapons:

For controversial weapons, we use BNP Paribas Group's CSR exclusion list which is reviewed annually. According to the Defence Group's Policy, the list of controversial weapons is based on international conventions and norms such as:

1. Anti-personnel mines: the Ottawa Convention, which took effect in March 1999, bans the use of antipersonnel mines;
2. Cluster weapons: the Convention on Cluster Munitions (Oslo Convention) adopted in 2008 prohibits the use, stockpiling, production and transfer of cluster munitions;
3. Nuclear weapons: the Nuclear Non-proliferation Treaty (NPT) of 1968, which took effect in 1970 aims at inhibiting the proliferation of nuclear weapons;\*
4. Biological and chemical weapons: the Biological and Toxin Weapons Convention (BTWC) of 1972 and the Chemical Weapons Convention (CWC) of 1993 outlaw biological and chemical weapons;
5. Depleted uranium munitions: no current international convention exists, but BNP Paribas recognises the concerns of certain stakeholders concerning depleted uranium munitions

\*BNP Paribas makes an exception for government controlled nuclear weapon programs in NATO countries that are authorized to possess nuclear weapons under the Nuclear Non-Proliferation Treaty". It means that the policy doesn't exclude Thales, Boeing, Airbus for example, even if they are involved in the manufacture of components of nuclear missiles.

For conventional weapons, BNP Paribas Asset Management applies for all the funds that apply the TS label a filter with a threshold of 5% revenue coming from companies involved in weapons.

Here is the list of criteria we are looking at for weapons exclusion:

- Military contracting weapons involvement
- Military contracting weapons (product related)
- Military contracting weapons (non-product related)
- Small arms civilian customers (assault weapons)
- Small arms civilian customers (key components)
- Small arms civilian customers (Retail distribution)

As it is mentioned in TS's document, "a socially responsible product shall not finance companies that derive more than 5% of their revenues from the production of weapons or tailor-made components thereof".

- Data provider: Sustainalytics using screening in "product involvement" and "weapons exclusion filters" – 5% revenues.
- Second opinion: ESG Analysts at Sustainability Centre
- Final approval: Sustainability Committee

Coal:

- Data providers:
  - Sustainalytics using screening in "product involvement" and "coal exclusion filters"
  - Urgewald exclusion list
- Second opinion: ESG analysts at Sustainability Centre
- Final approval: Sustainability Committee

Unconventional oil and gas:

Using information gathered from Sustainalytics filters on unconventional O&G and using BNPP group list of excluded companies regarding the Unconventional O&G policy, a list of companies violating the TS's criteria on Unconventional O&G is determined.

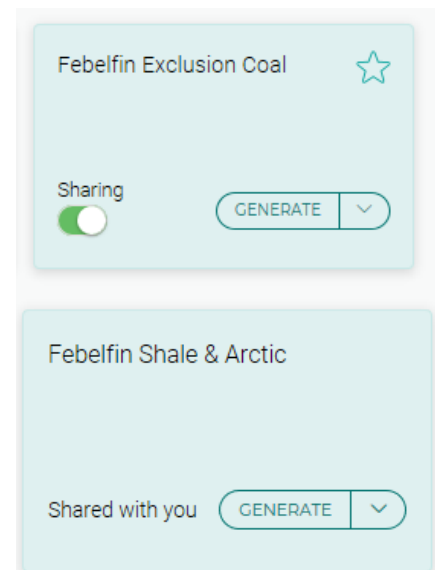
Operationally speaking companies mainly active in Unconventional Oil & Gas are tagged using Sustainalytics' Product Involvement tool on "Arctic O&G exploration", "Oil sands" and "Shale Energy"

- For Sustainalytics, when the field "Level of Involvement" is not available, the field "Standard analysis" is used and the analysis is done on a line by line basis on the information available, such as location of the activity, % of revenues derived from unconventional (if available), % of reserves if available etc.
- Data provider: Sustainalytics using screening oil sands, shale and arctic drillings
- Second opinion: ESG analyst at Sustainability Centre
- Final approval: Sustainability Centre

Conventional oil and gas:

BNPP AM has developed its own proprietary methodology to assess compliancy with TS minimum standards for conventional oil and gas producers which adheres to the following procedure depending on data availability.

- Sustainalytics provides a preliminary list of issuers that are supposed to be exposed to the conventional oil and gas sector across the world
- Exclusions are applied to this list as a result of non-compliance with other criteria such as UN Global Compact or requirements linked to the weapons sector
- Eligibility of issuers remaining in the list is pegged on requirements such as:
  - Corporations with less than 50 % revenues derived for products / services dedicated to the execution of harmful activities
    - Where available, Sustainalytics date is used for verification
    - Where not available, data is collected by our research analysts through direct contacts with companies under consideration, annual reports or other relevant documentation
  - Those that have a SBTi target set at well-below 2°C or 1.5°C, or have a SBTi 'Business Ambition for 1.5°C' commitment SBTi. Data is collected directly on SBTi's website by our research analysts.
  - Entities with more than 15% Capex in aligned activities are identified by our research analysts as indicated above.
- An additional analysis is conducted on companies that did not qualify for eligibility above to list those that can be incorporated into the phase out margin.
  - Best-In-class classification identifies companies that are ranked decile 1, 2 or 3 as per our proprietary ESG rating methodology
  - Governance, which reduces principal adverse impact, is incorporated in this ESG analysis
  - All other issuers are excluded
- Data provider: Sustainalytics, Company data and/or Bloomberg.



- Second opinion: ESG analyst at Sustainability Centre
- Final approval: Sustainability Centre

### Electricity generation

BNPP AM has developed its own methodology to assess compliancy with TS minimum standards for electricity producers which adheres to the following procedure depending on data availability.

We have noted the grandfathering clause mentioned in the Quality Standards: Until 2025, electricity utilities with a carbon intensity lower than the annual thresholds below and that are not structurally increasing coal- or nuclear-based power generation capacity, are eligible:

	2019	2020	2021	2022	2023	2024	2025
Max. gCO <sub>2</sub> /kWh	429	408	393	374	354	335	315

#### 1. Information on specific CO<sub>2</sub> intensity (gCO<sub>2</sub>/kWh) available from public sources

##### a. Company disclosures - 2020

##### b. Other available sources (Benchmarking Air emissions / Transition Pathway Initiative / CDP / Bloomberg)

If Carbon intensity > 374 gCO<sub>2</sub>/kWh, OUT

If Carbon intensity < 374gCO<sub>2</sub>/kWh, IN

Otherwise

#### 2. BNPP AM has developed a Machine Learning model to estimate the probability of a power producer to be above a defined power generation carbon intensity threshold for companies that do not disclose their power carbon intensity. This model is based on a random tree model.

It aims at estimating the conditional probability below for the largest set possible of power generators:

$$P(Y = c / X, D)$$

Where:

Y: variable standing for whether or not the specific GHG emissions intensity in electricity generation for a given company, is above a given threshold (for 2022, set to : 374 gCO<sub>2</sub>e/kWh)

c: class associated to each company to assess Y, based on X data. Here, whether 0 (not excluded) or 1 (excluded)

X: set of variables that may have an influence on the GHG emissions in electricity generation indicator

D: the sample of company for which we have a value reported or estimated of the GHG emissions in electricity generation. D allows the learning process

The analysis is performed for 1066 companies with power producing activities.

We base our analysis on the following set of data, when available:

Main metadata used by the model	Unit	Providers
GHG emissions intensity	gCO <sub>2</sub> e per kWh	•CDP •TPI
[capacity/generation]-Coal (Coal + Lignite)	MW GWh	•CDP •GCEL
Generation-[Gas/Wind/Solar/HydroMarine/Geothermal]	GWh	•CDP •Trucost (fossil fuels file)
Coal share of power [production/capacity/revenues]	%	•GCEL •Trucost

- Data providers: Sustainalytics, Trucost, Bloomberg, CDP, Benchmarking Air Emissions, Companies' reports, Transition Pathway Initiative, GCEL from Urgewald.
- Second opinion: ESG analyst at Sustainability Centre
- Final approval: Sustainability Centre



## OTHER ESG ISSUES

### Corporate Taxation:

Our proprietary ESG scoring methodology assesses companies' governance issues, including tax-related issues. Our 'Governance' assessment includes a category dedicated to 'Business Ethics Preparedness'. This theme seeks to evaluate a company's approach to promoting and supporting ethical business conduct for both internal operations and interactions with external stakeholders. Within this theme, depending on the sector, we look at specific indicators. If we assess taxation as a material issue to the sector, we will use specific metrics such as 'Tax Disclosure' that is included in our ESG scoring framework. This indicator provides an assessment of corporate transparency with regard to taxes paid and the possible use of tax shelters. Tax fairness is an important topic as the perception that taxes are treating individuals and corporations fairly is a cornerstone of public support for the tax system and for the government more broadly. There are also growing stakeholder concerns on the excessive use of tax shelters by companies, which can lead to both tax liability risk and reputational issues for companies. Corporate tax disclosure is the best means available for knowing whether each corporation is treated fairly—and that corporations as a group are paying their fair share of taxes. More information on our ESG scoring framework to be found here: <https://www.bnpparibas-am.com/en/esg-scoring-framework/>

Corporate tax is covered in our Stewardship activities. In our Proxy Voting policy, we also consider taxation when voting on 'Corporate Restructuring' items. We could vote against or abstain considering potential tax and regulatory advantages. Votes concerning corporate restructuring are considered non-routine and evaluated on a case-by-case basis. Issues that will be taken into account include spin-offs with potential tax and regulatory advantages. More details here: <https://docfinder.bnpparibas-am.com/api/files/3D5BFD77-59C8-4702-8CBE-D4D555109BD7>. In our engagement with companies, we will raise this topic when relevant. We believe widespread corporate tax avoidance – or even the appearance of aggressive tax practices – undermines faith in taxation and ultimately societal resilience. In 2020, we participated in an off-the-record call with a group of American companies to discuss these issues, hosted by the B Team, a group of leadership companies focused on sustainability, including fair and transparent tax practices. We also spoke at the International Anti-Corruption Conference on the importance to investors of corporate country-by-country tax reporting.

### Oppressive regimes:

To quantify the level of oppression in countries we look to the Freedom House classification to be found [here](#). In the context of the Towards Sustainability label, we will exclude the countries classified as "Not Free", and/or when they have not ratified at least half of the [18 International Human Rights Treaties](#). We exclude countries that have not ratified or have not implemented in equivalent national legislation the eight fundamental conventions identified in [the International Labour Organisation's declaration on Fundamental Rights and Principles at Work](#).

### Environmental commitments:

In order to quantify countries' environmental commitments in the context of the Towards Sustainability label, we exclude countries which are not party to [the Paris Agreement](#), [the UN Convention on Biological Diversity](#), and [the Nuclear Non-Proliferation Treaty](#).

### High military budgets and high level of corruption:

In addition, we exclude countries with particularly [high military budgets \(>4% GDP\)](#) and the data we collect from the World Bank; we exclude countries that are considered '[Jurisdictions with strategic AML/CFT deficiencies](#)' by the FATF; and finally exclude countries with a high level of corruption with less than [40/100 on the Transparency International Corruption Perception Index](#).

### Death Penalty

To investigate whether countries have and/or apply the death penalty we look at Amnesty International's Death Penalty Paper that comes out annually. The most recent one being [this one](#) from 2020. In the document we can also see whether countries who do not have a death penalty as a legal form of ultimate punishment for crimes actually do resort to capital punishment. It is worthy of note that a majority of the countries that apply the death penalty are in fact excluded from TS funds due to the criteria that is already mandatory for the label.

### Biodiversity:

According to the world's leading scientists, the natural world is in crisis. We are losing biodiversity – the very fabric of life on Earth – at an alarming rate. According to the most comprehensive scientific assessment, 'the diversity of nature maintains humanity's ability to choose alternatives in the face of an uncertain future'. Biodiversity loss threatens the achievement of 80% of the United Nations' Sustainable Development Goals sub-targets related to poverty, hunger, health, water, cities, climate, oceans and land (IPBES, 2019). More details on our plan to embed biodiversity considerations across all the pillars of our sustainable investment approach are to be found in:

[Sustainable by Nature](#) : Our roadmap for Biodiversity (including Water, Waste)

Palm oil: [Responsible Business Conduct Policy](#) page 9 – 13

Wood Pulp: [Responsible Business Conduct Policy](#) page 14 – 18



#### Water use:

Water is a more complex environmental theme to capture than carbon, due to its local and temporal dimensions. The effects of water over-use and pollution vary depending on the time of the year and the vulnerability of ecosystems, local populations and businesses. For more information, please refer to our biodiversity roadmap:

[Sustainable by Nature](#) & our [Global Sustainable Strategy](#) page 28

#### Pollution & waste: (e.g. plastics)

In our ESG rating model a theme we cover in all sectors and for which the criteria will vary from sector to sector is the use of natural resources, emissions and waste. We have also set a series of internal sub-targets including waste to support our environmental sustainability objective. These are areas we are already working on, but the sub-targets will help us improve our understanding of what our contribution should be across our investments, e.g. biodiversity or adaptation; to improve our current assessment of companies' performance on plastics waste or sustainable fisheries; or to enhance information availability and quality from companies and policymakers in order to start assessing and comparing companies' performance in these areas.

We are also part of the New Plastics Economy Global Commitment, endorsed by companies representing 20% of all plastic packaging produced globally, as well as governments, NGOs, universities, industry associations, investors, and other organisations. For more information please refer to our biodiversity roadmap: [Sustainable by Nature](#)

#### Gender & diversity:

Inequality of opportunity occurs when people's place of birth, gender, ethnicity or parental background determine to a significant degree their access to education and the qualifications they obtain, their access to work and the type of job they get; and, ultimately, their level of income. There is significant inequality of opportunity across world populations. Through our voting policy we target companies that lack diversity on their board and we apply criteria around diversity in the social pillar of our ESG methodology. For more information, please refer to [Global Sustainable Strategy](#) page 30

#### Forward contracts on agricultural commodities:

With 6% of the world's GDP and 30% of the employment, agriculture is a key sector in today's economies. Its importance is going to grow in the next decades: the global demand for agricultural commodities and food will increase as the world population is expecting to approach 9 billion by 2050, with a major contribution of developing countries. In addition, the supply of agricultural goods could be threatened by the adverse impacts of climate change. In terms of soft commodity derivatives, we have banned the investment in agricultural commodities since June 2015.

## DATA PROVIDERS

- Trucost for power generation mix and carbon emissions
- Sustainalytics for UNGC, weapons, tobacco, unconventional oil and gas, tar sands, shale and arctic drilling and Thermal Coal Power Generation-Standard Analysis (data used for getting the list of companies involved in power generation)
- BNP Paribas AM's Sustainability Centre Research
- BNP Paribas SA's exclusion lists
- Companies' disclosures
- Bloomberg
- Transition pathway initiative and Urgewald GCEL for power generation and coal activities.
- Science base Target initiatives
- CDP
- Benchmarking Air Emissions

## OTHER DISCLOSURE OF POLICIES

- BNPP AMs "Global Sustainable Strategy" (page 25-30) addresses how climate change and Paris alignment are taking into account, as well as gender, diversity and water use principles.
- BNPP AM's "Responsible Business Conduct Policy" 2021 (English version) further discloses our company's policies in multiple domains:
  - Controversial weapons: page 35-38
  - Coal: page 31-32



- Unconventional oil & gas: page 33-34
  - Power generation, incl. nuclear power generation: page 19-21
  - Tobacco: page 43-45
  - Forward contracts on agricultural commodities: page 22-30
  - Asbestos: page 39-42
  - Palm oil (biodiversity): page 9-13
  - Wood pulp (biodiversity): page 14 – 18
- Our Biodiversity Roadmap 'Sustainable by Nature' provides BNP Paribas Asset Management's principles on water use, pollution and waste (e.g. plastics) and details our plan to embed biodiversity considerations across all the pillars of our sustainable investment approach.

Documents mentioned are regularly updated and made available at [Sustainability documents - BNPP AM Corporate English \(bnpparibas-am.com\)](https://bnpparibas-am.com/sustainability-documents)

## IMPLEMENTATION OF THE EXCLUSION LIST IN THE FRONT OFFICE TOOL

In 2019, BNPP AM implemented Aladdin a front-to-back office operations tools. Aladdin is BNPP AM's unique solution for trading, compliance and risks controls. ESG and carbon related information are also integrated into this tool. Thanks to this tool, ESG and carbon information at portfolio level are monitored more efficiently. In addition, BNPP AM's TS exclusion list is implemented in Aladdin systems and our investment compliance team are able to control TS portfolio's compliance (pre and post trade). In the case of a breach, portfolio managers will have to sell the stock, this will be done in the best interest of clients.

## DISCLAIMER

BNP Paribas Asset Management France, "the investment management company," is a simplified joint stock company with its registered office at 1 boulevard Haussmann 75009 Paris, France, RCS Paris 319 378 832, registered with the "Autorité des marchés financiers" under number GP 96002.

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