EXTRA-FINANCIAL REPORT

# SUSTAINABLE FUTURE IN PROGRESS

## 2023 SUSTAINABILITY REPORT

BNP PARIBAS
ASSET MANAGEMENT

The sustainable investor for a changing world

For Professional Investors – Marketing Communication

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# SUSTAINABLE FUTURE IN PROGRESS

We are living and investing in a dynamic time, with geopolitics, macroeconomics, and regulation in constant evolution. Further contributing to the complexity, climate change, growing social inequality and environmental damage are impacting the current and future performance of the companies and markets in which we invest.

As the sustainable investor for a changing world, we are committed to delivering financial returns to clients while contributing, through our influence and our investment decisions, to positive real-world outcomes for our common future. Recognising that sustainability is not an end but a means, we understand that our efforts must evolve and adapt. And the responsibility we hold obliges us to document our actions and our impact. Just as the world around us changes, our approach to sustainability tackles the key challenges of today to help design a better tomorrow.

In this context, the transition towards a sustainable future is a perpetual process, too complex to face alone. We believe that it is by working collectively with clients, issuers, regulators and peers that we can contribute most effectively.

# ABOUT THIS REPORT

This report is produced annually by our Brand and Communications department and our Sustainability Centre along with contributions from various departments throughout the organisation. The management teams of both departments review the report and the board of directors of BNP PARIBAS ASSET MANAGEMENT Europe, which includes the CEO of BNP Paribas Asset Management, is responsible for approving it. BNP Paribas Asset Management is the source for all data presented in this document, presented as at 31/12/2023, unless otherwise specifically indicated. All strategies, policies and approaches described in this report apply to BNP Paribas Asset Management entities including BNP Paribas Asset Management UK (Limited). Certain Joint Ventures and Affiliated Entities may not apply all policies or may apply their own customised versions.

The content of this report on BNP Paribas Asset Management's approach and corporate philosophy is only for information purposes and does not constitute an offer to buy or sell any services, products or investments. These statements apply differently to each BNP Paribas Asset Management product, the characteristics of which, including those relating to sustainability, are described in the legal documentation of the funds, available on BNP Paribas Asset Management websites according to your country of residence and investor profile.

# 2023 IN FIGURES

## The sustainable investor for a changing world

**€540bn**
total AUM[1]

**3,207**
employees located across **34** countries

**525**
investment professionals

**400**
client-servicing specialists

**67**
countries in which our clients are based

## Our focus is on generating long-term sustainable returns

**€356.8bn**
ESG[2] AUM (in scope of our Global Sustainability Strategy)

**90%**
of our open European range classified as Article 8 or 9, representing €281.5bn[3]

**€139.5bn**
AUM in funds with a European sustainability label

## A future maker in action

**1,931**
general meetings voted in total

**85%**
support of shareholder proposals on climate

**36%**
management resolutions opposed

## Walking the talk

**3,933**
hours volunteered by our employees

**461**
participants in environmentally-themed workshops (*fresques*) since 2019

**2.2 $tCO_2e$**
operational GHG emissions per employee whereas our 2025 target is 1.85

Source: BNP Paribas Asset Management, as of 31 December 2023, Joint-Ventures included.
1 - Assets under Management.
2 - Environmental, Social and Governance.
3 - AUM in Sustainable Finance Disclosure Regulation (SFDR) / Article 8 and Article 9 funds (all types of products). Article 8 funds: promoting environmental and/or social characteristics / Article 9 funds: having a sustainable investment objective.

# EDITORIAL

**Sandro Pierri**
CEO, BNP Paribas Asset Management

"2023 turned out to be yet another year of abrupt and profound changes in global financial markets. Over the coming years, the asset management industry will face far-reaching change, driven by the need to reallocate capital towards a more sustainable and inclusive economy, new geopolitical dynamics, evolving regulation, technological transformation and changing demographics. These highly interconnected dynamics are creating a rapidly shifting investment environment.

Throughout last year's turbulence, we navigated these challenges in a frequently volatile market environment to generate the best possible performance for the assets we manage on behalf of our clients.

We reinforced our positioning as 'The sustainable asset manager for a changing world' and marked several achievements:

- We grew our Environmental, Social and Governance (ESG) fund range, with a focus on ESG fixed income exchange-traded funds (ETFs).
- We continued to invest in our ESG data programme to support the further integration of ESG into our investment portfolios and products.
- We completed the acquisition of a majority stake in leading Danish natural resources specialist International Woodland Company, demonstrating our forward-looking approach to sustainability-related investment strategies, particularly in private markets.
- We updated our Global Sustainability Strategy, which describes how we will work towards our ambition of being even more transparent and science-led in our approach to sustainability.

## Understanding how the transitions our world is facing affect the dynamics of risk-adjusted returns for the assets we are investing in is key to delivering long-term sustainable returns for our clients.

We believe this will help us generate improved risk-adjusted excess returns for the assets we manage for you – returns that can also have positive environmental and social impacts. We will develop our net zero and sustainable solutions and publish our roadmap approach to equality. We will continue to engage with investee companies to encourage them to improve their ESG performance, and we will 'walk the talk' ourselves – by seeking greater sustainability in our own operations.

Understanding how the transitions our world is facing affect the dynamics of risk-adjusted returns for the assets we are investing in is key to delivering long-term sustainable returns for our clients. This is what our investment teams are focusing on day in day out, together with their colleagues supporting them.

As long-term investors with our clients' interests at heart, we will continue to use our voice and our influence to push towards more sustainable outcomes for the companies and markets in which we invest."

# AT A GLANCE

AT A GLANCE

# ABOUT US

BNP Paribas Asset Management (BNPP AM) is BNP Paribas Group's dedicated asset management business that employs 3,207 people in 34 countries, including a large commercial presence in Europe and the Asia-Pacific region. Through the BNP Paribas Group integrated model, BNPP AM has access to a broad international client base and has close relationships with BNP Paribas' distribution networks. Ranked the 10th largest asset manager in Europe*, BNPP AM manages €540 billion of assets and benefits from the expertise of more than 500 investment professionals and around 400 client-servicing specialists, serving individual, corporate and institutional clients in 67 countries.

We offer investment solutions for individual investors (through internal distributors within BNP Paribas Group and external distributors), and corporate and institutional investors including insurance companies, pension funds and official institutions.

We offer portfolio investment expertise in line with clients' long-term sustainable performance expectations, including active, conviction-based strategies, liquidity solutions, emerging markets, multi-assets, systematic, quantitative & index and private assets.

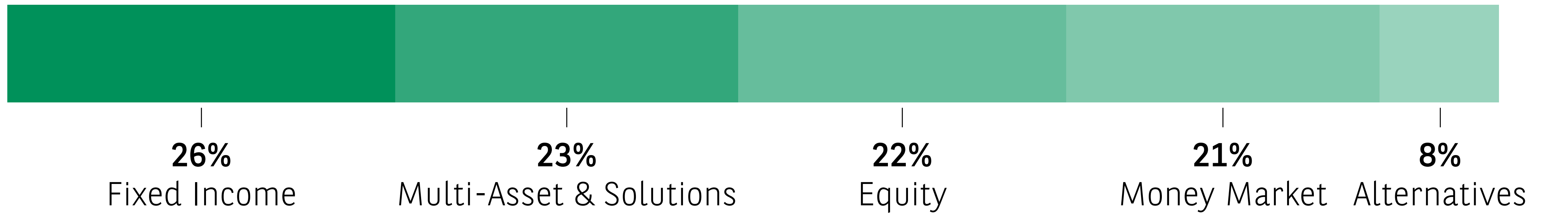
BNP Paribas Asset Management, 31 December 2023.
Joint ventures included in the figures.

* Source: IPE Top 500 Asset Managers 2023.

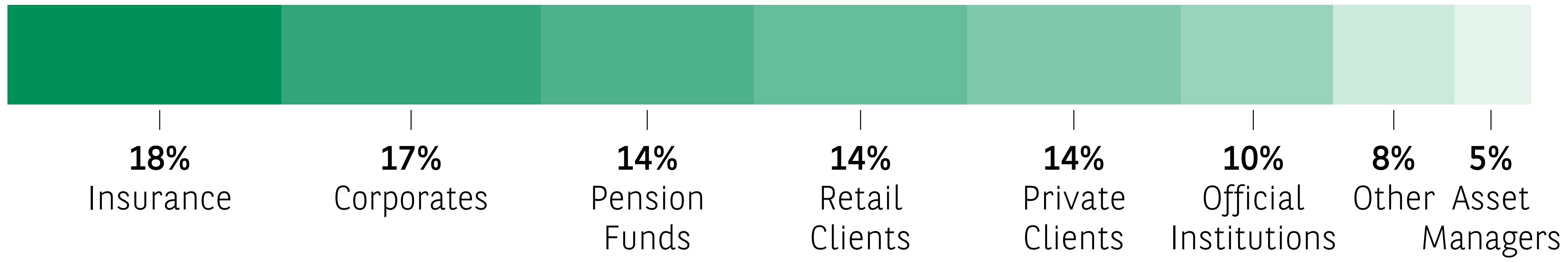
AT A GLANCE

# A well-balanced, globally diversified and European-rooted asset manager

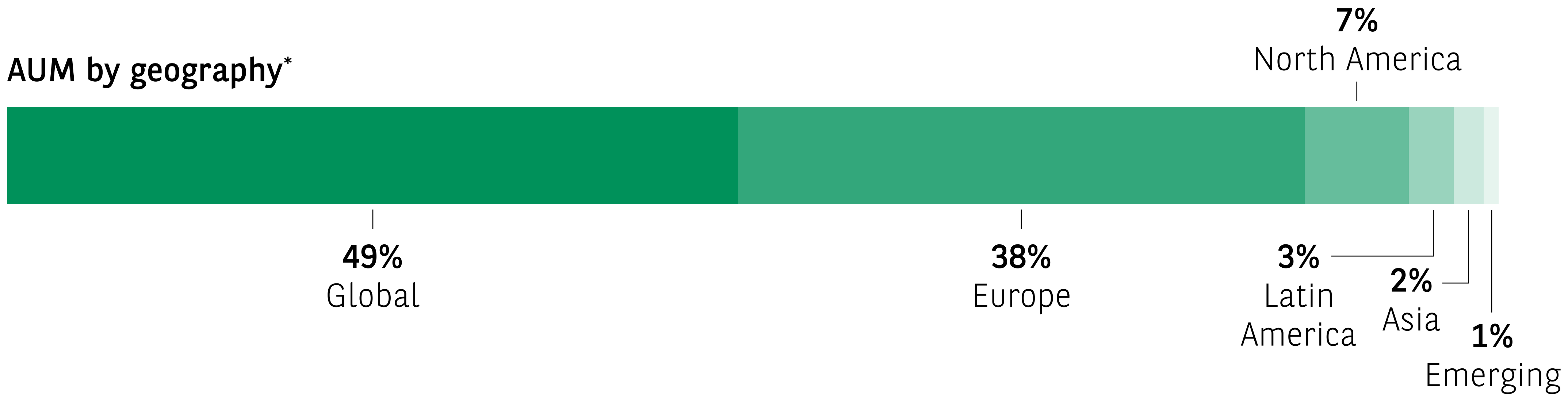
## AUM by asset class




## AUM by client type**



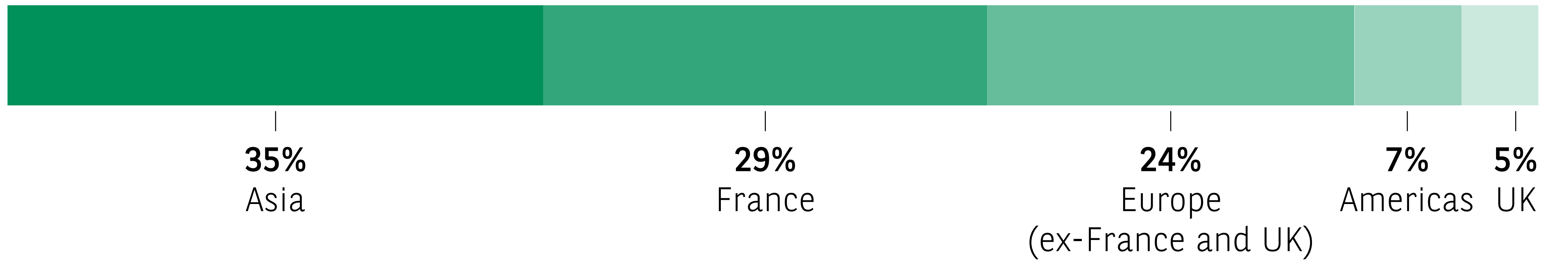

## AUM by geography*




## AUM by client geography


## AUM by distribution channel


## Employees by geography




Source: BNP Paribas Asset Management, 31 December 2023. Joint ventures included. Figures may not add to 100% due to rounding. - *Asset Class Region - ** Excluding investment in our own funds – €498bn. - *** EMEA: Europe (including UK), Middle East, Africa

AT A GLANCE

# AWARDS

## Recognised for our expertise: 71 awards won in 2023, including 47 related to sustainability

### Pan-Europe

- ESG Investing: **Best ESG ETF provider**
- Central Banking Awards: **ESG services**

### APAC

- Asia Asset Management, 2023 Best of the Best Awards: **Best ESG Manager** (Asia and Malaysia, fourth time winning), **Best Climate Change Strategy** (ASEAN), **Best ESG Engagement Initiative** (Hong Kong and Singapore)
- 2023 Singapore Morningstar and Hong Kong Morningstar, Awards for Investing Excellence: **Best Asset Manager - Sustainable Investing** (Hong Kong and Singapore)
- Insurance Asia News, Institutional Asset Management Awards 2023: **Best ESG Thematic Strategy – Corporate Governance (APAC)**
- Asian Investor, Asset Management Awards 2023: **ESG Excellence Awards - Best Social Investment Strategy Adviser** (APAC)

### People

- Financial News, Fifty Most Influential in Sustainable Finance, **Michael Herskovich**
- Financial News, 25 Rising Stars of Fund Management, **Robert-Alexandre Poujade**
- Financial News, 100 Most Influential Women in Finance, **Jane Ambachtsheer**
- Funds Europe 2023, CIO of the Year, **Olivier De Larouzière**
- Joint Committee on Climate Change (JC3), Leaders in Climate Change, **Angelia Chin-Sharpe**
- Palmarès Giverny-Le Point 2023, Top 50 committed leaders under 40 who contribute to accelerating France's ecological and social transformation, **Pauline Blandin**



# OUR STRATEGY AND APPROACH

# EDITORIAL

**Jane Ambachtsheer**
Global Head
of Sustainability

"As long-term investors with our clients' interests at heart, a core part of our strategy involves using our voice and our influence to push towards more sustainable outcomes for the companies and markets in which we invest. 2023 was no exception. This report provides an overview of our key achievements last year. We are excited about the many projects we worked on, whether helping clients to reposition their portfolios for net zero, engaging policymakers or helping to establish a new collaborative initiative focus on nature. I am inspired by the passion and deep expertise I see my colleagues bring to work every day, as well as the breadth and depth of their accomplishments.

The world is changing dramatically, driven in large part by the three interlinked challenges of climate change, ecosystem degradation and inequality – made ever more challenging by geopolitical uncertainty and economic constraints. Our sustainability strategy, built on six pillars, helps us to navigate these societal-scale problems. We rely on the active engagement of our colleagues, clients and industry peers in collaborating to better understand and address these challenges, and with our investment teams to put the insights we gain to work in portfolios.

The current context can be challenging. We have seen the most stringent and far-reaching financial sustainability framework introduced in Europe, and while we see progress towards net zero, the path is bumpy and not moving quickly enough. But we also know that what happens on climate action in this decade will be decisive, and leaders everywhere must stay on course in order to protect future environmental and economic stability.

## I am inspired by the passion and deep expertise I see my colleagues bring to work every day, as well as the breadth and depth of their accomplishments.

We remain firmly committed to delivering long-term sustainable returns to our clients in this world in transition, and hope you enjoy reviewing the progress we are reporting on in the following pages."

# OUR PURPOSE

**Our purpose is to achieve long-term sustainable returns for our clients, by placing sustainability at the heart of our strategy and investment philosophy.**

Because understanding and supporting the transition to a sustainable economy is key for us, we have adopted a single-minded sustainability approach. It shapes our firm and guides what we do: our strategy, our culture, our structure, our products, our processes, the way we engage with our clients and with the companies and the markets we invest in.

### This vision is endorsed by our Executive Committee, composed of:

- **Sandro Pierri,** Chief Executive Officer
- **Steven Billiet,** Global Head of Global Client Group
- **Marion Azuelos,** Global Head of Human Resources
- **Robert Gambi,** Global Head of Investments
- **David Vaillant,** Global Head of Finance, Strategy and Participations
- **Pierre Moulin,** Global Head of Products and Strategic Marketing
- **Philippe Boulenguiez,** Global Chief Operating Officer
- **Jane Ambachtsheer,** Global Head of Sustainability
- **David Bouchoucha,** Head of Private Assets
- **Emmanuel Collinet de La Salle,** Head of Group Networks
- **Guy Davies,** Deputy Head of Investments, CIO Fundamental Active Equities
- **Cécile Lesage,** Chief Financial Officer
- **Roger Miners,** Head of Distribution Europe
- **Mike Nikou,** Head of APAC
- **Olivier de Larouzière,** CIO Global Fixed Income

# OUR STRATEGY

**Sustainability is at the core of our investment beliefs.**

Our investment beliefs underpin our approach by weaving together investment teams that cover different asset classes, geographies and themes. Sustainability is a core component of this, as outlined below.

### Conviction-driven

In a changing world, our conviction-based investment philosophy provides scope to capture both short- and long-term opportunities for value creation. Our approach combines a thorough understanding of market dynamics and fundamentals (at security, sector, thematic levels), enabling high conviction positions and a dynamic allocation of capital across varied time horizons.

### Sustainable

We are convinced we make better decisions by integrating sustainability considerations across our investment processes. We believe this will result in better outcomes for our clients, markets and the planet.

### Research-driven

Research is the foundation on which we build our market views to support our convictions. We apply both a quantitative and fundamental approach to our research with a culture of curiosity, collaboration and challenge.

### Global perspective

A global perspective is needed to make better investment decisions, in an increasingly interconnected world.

### Powered by people

People drive investment decisions. We are committed to attracting, nurturing and retaining our diversity of talent. We align incentives to our clients' long-term sustainable objectives.

### Risk management

The value created through our research and idea generation needs to be carefully preserved through appropriate risk utilisation.

# OUR APPROACH TO SUSTAINABILITY

**Our approach to sustainability is built on six pillars. It provides a strong framework, built to recognise that systemic risks such as climate change or biodiversity loss cannot be fully addressed through exclusions or the integration of ESG factors into portfolio management.**

Our stewardship activities and strategy with regard to the 3Es complement and amplify our efforts to reduce material investment risks, as well as systemic risks that require collective and urgent action.

## The 6 pillars of our approach

1

**Forward-looking perspective: the '3Es' (Energy transition, healthy Ecosystems, and Equality)**

Enhance investment decision-making, preserve long-term market performance

2

**Responsible Business Conduct (RBC) and sector-based exclusions**

Articulate expectations for responsible business conduct and sensitive sectors; avoid regulatory and stranded asset risk

ESG

3

**ESG integration**

Enable better investment decision-making

4

**Stewardship (voting, engagement, policy advocacy)**

Protect company value, influence sound regulatory framework, promote better social and environmental outcomes

**Our investments**

+

5

**Sustainability in our product range**

Provide investment solutions to help our clients through their sustainability journey

label finansol. Label ISR INVESTISSEMENT SOCIALEMENT RESPONSABLE TOWARDS SUSTAINABILITY GREENFIN LABEL FRANCE FINANCE VERTE

**Our products**

6

**Corporate Social Responsibility (CSR) walking the talk**

Our corporate practices and disclosures should match or exceed the standards we expect from the entities in which we invest

**Our operations**

# Our approach in practice

**Our approach to sustainability begins with an investment philosophy,** a set of underlying beliefs that inform investment teams when they are managing their funds. Relevant Environmental, Social and Governance (ESG) considerations are integrated into investment philosophies.

**At the idea generation stage,** investment teams think broadly about future investment opportunities. Integrating ESG factors allows them to include or discard opportunities based on ESG considerations. For example, some strategies identify the highest-rated ESG names in an investment universe as a priority for additional financial analysis.

**During portfolio construction,** ESG factors can be used to screen companies, overweight or underweight positions, or tilt portfolios. For example, many of our multi-factor portfolios have a tilt away from carbon-intensive names and towards high ESG performers.

**Regarding risk management,** we have a fiduciary duty to our clients to take all risks into consideration, including ESG and sustainability risks.

**Our proxy voting activity is led by our stewardship team,** which liaises with portfolio managers to seek input on strategic votes. Engagement on governance and sustainability topics is typically also led by our stewardship team, while investment teams include ESG topics in their ongoing company meetings.

**Per our ESG Integration Guidelines,** we monitor the ESG score and carbon footprint of investments against their benchmarks with the aim of outperforming on each.

Our fund reports contain these two Key Performance Indicators (KPIs) so that clients can better understand the position of their portfolios.

We believe our approach provides a strong framework for **embedding and managing sustainability risks and opportunities in the investment process.**

Our multi-faceted approach also involves a more detailed set of investment beliefs focused on sustainability:

- Behaving as a 'universal owner' helps to shape a more sustainable economic future
- ESG integration can enhance the way we invest
- Our fiduciary duty is aligned with sustainability
- Stewardship is both an opportunity and an obligation
- 'Walking the talk' is critical to achieving excellence

See our Global Sustainability Strategy for more information.

# SUSTAINABILITY GOVERNANCE

**We expect high standards of governance from the companies in which we invest, including on all sustainability matters, and we hold ourselves to the same standards. Our approach to sustainability is managed by a company-wide governance framework.**

This framework ensures that **our sustainability-related policies and practices are embedded and implemented appropriately throughout our business, and that any new initiative is well-conceived, properly structured and delivered effectively.**

Our governance system ensures board and executive-level oversight of the implementation of the Global Sustainability Strategy (GSS) and our business strategy.

At an operational level, it is an effective mechanism to ensure that our policies and processes are aligned with our ambition and that there is continuous communication among stakeholders.

## BNPP AM EXECUTIVE BOARD

Strategic oversight of overall business

Chair: CEO

## BNPP AM EXECUTIVE COMMITTEE

Strategic oversight of sustainability approach

Chair: CEO

### SUSTAINABILITY COMMITTEE

Oversees and validates our approach to sustainability

Chair: CEO

### INVESTMENT COMMITTEE

Approves sustainability methodologies and monitors ESG integration

Chair: Global Head of Investments

### STEWARDSHIP COMMITTEE

Reviews voting and engagement implementation

Co-Chairs: Equities CIO & Global Head of Sustainability

### GLOBAL PRODUCT COMMITTEE

Approves sustainability characteristics of products

Chair: Global Head of Products and Strategic Marketing

### EXECUTIVE CSR COMMITTEE

Oversees the implementation of our approach to Corporate Social Responsibility (CSR)

Chair: Head of Corporate Social Responsibility

## OTHER ESG-RELATED PROGRAMMES OR COMMITTEES

### SUSTAINABLE REGULATION PROJECT

Oversees the development and implementation of regulatory-related methodologies, definitions, disclosures and processes

Co-Chairs: Global Head of Products and Strategic Marketing and Global Head of Sustainability

### SUSTAINABLE METHODOLOGY OVERSIGHT COMMITTEE*

Oversees and validates ESG methodologies that are linked to regulatory/label frameworks

Chair: Global Head of Products and Strategic Marketing

* Sub-Committee of the Sustainability Regulation Programme

### ESG INTEGRATION STEERING COMMITTEE

Manages the scoring evolution process and ensures deepening implementation of our ESG Integration Guidelines

Chair: Sustainability Integration Lead

### ESG DATA PROGRAMME

Supports the development and deployment of various research methodologies and internal data capabilities to support investment analysis, portfolio construction & measurement and reporting

Sponsors: Global Head of Products and Strategic Marketing, Global Head of Sustainability and Global Chief Operating Officer

- **Implementation is monitored by our internal control systems**
- **Integrated into BNP Paribas Group Sustainability**

# OUR CULTURE

At BNP Paribas Asset Management, we believe that sustainable investment practices have the potential to contribute positively to global economic, environmental and societal conditions while achieving long-term sustainable returns for our clients.

The key to achieving these outcomes lies in our people. At BNPP AM, this is at the heart of what we do; **our people are proud of the impact they make, notably through helping our clients achieve their objectives, and contributing to a better future.**

We believe **our people make the most meaningful impact on the world** when they are living up to their full potential. That is why we have built a culture of empowerment that helps release the potential within each of our employees, nurtures it, and allows it to flourish.

## Building sustainability into our culture

To deliver on our purpose and strategy, we need a workforce that understands our goals and embraces them. We also believe that creating a work environment that is consistent with our investment philosophy will help keep sustainability top of mind for our employees, and enable them to more authentically incorporate sustainability principles into their day-to-day activities.

We include questions about our culture and strategy in our employee engagement surveys and we ask these questions annually to track our progress. **In 2023, the responses continued to be overwhelmingly positive, with 90% of respondents saying it is important to them that we become a fully sustainable asset manager and 77% of respondents saying they could see how their role supports our commitment to sustainability,** which has increased by 5% since 2021. We believe that these results speak to the effectiveness of our approach, but we know we must remain vigilant in this area, as it is a vital component to maintaining our leading position on sustainability[1].

**Our updated Global Sustainability Strategy,** released in early 2024, now includes a pillar on 'walking the talk', and we see corporate social responsibility and operational sustainability as an important differentiator in our recruitment strategy and for achieving our business objectives. We have dedicated resources on this topic to help us achieve our goals.

> We believe that through our objective to embed sustainability in all we do **– our investments, our people, our processes, our operations and other aspects of our business –** we can build a culture of sustainability that will help us to deliver our business strategy more effectively.

**90%**

of respondents say it is important to them that we become a fully sustainable asset manager

**77%**

of respondents say they could see how their role supports our commitment to sustainability

1 - 2nd in Europe for sustainable thematic strategies, according to an analysis made by BNP Paribas Asset Management based on Morningstar data as at 31/12/2023.

# PEOPLE

**We believe that our people make the most meaningful impact on the world when they are living up to their full potential.**

We do this by focusing on building a culture of empowerment and a work environment that is inclusive and inspiring. In addition to this, we believe that through our objective to embed sustainability in what we do – not only in our investments, but also in our people processes, in our operations and in other aspects of our business – we can build a culture of sustainability that will help us to more authentically deliver on our business strategy.

## Sustainability Centre

**The Sustainability Centre is a well-resourced team of sustainability specialists who drive our approach to sustainability**. 2023 saw the addition of new roles in the team, including an ESG Specialist to focus on private assets and a CSR Project Manager to help us implement employee and community-focused CSR initiatives.

The Sustainability Centre is responsible for developing and implementing the firm's sustainability strategy, ESG Integration Guidelines and Policy, Stewardship Policy and Responsible Business Conduct Policy, as well as our ambitious targets on the energy transition, the environment and equality. It plays a crucial role in measuring, tracking and reporting on our impact and progress on sustainability.

The ESG research team within the Sustainability Centre provides investment teams with research, analysis and data at company and sectoral levels. It also supports these teams in their efforts to integrate sustainability-related risks and opportunities into investment strategies.

Our ESG research analysts' insights are informed by a variety of external data and research sources. They also deliver a range of educational opportunities to colleagues across the organisation.

Members of the Sustainability Centre are highly qualified and have extensive relevant experience. More than half of the team members identify as women and we have team members located in Boston, Hong Kong, London, New York, Paris, Shanghai, Singapore and Toronto. This means they not only bring regional expertise to the global team, but they are also able to work closely with local investment and sales teams. Team members have backgrounds in consulting, advocacy and policy, working with Non-Governmental Organisations (NGOs) and intergovernmental organisations, rating agencies, mainstream investments, sell-side analysis, sales and marketing and various industry experience.

**35**
**ESG experts** across 3 continents (Asia, Europe and North America)

**20**
**new positions** since 2017

**13+**
**years** average professional experience

**10**
**languages spoken**

# ESG Champions

Our network of over **140 ESG Champions** plays **a vital role** in linking our investment and sales teams with our Sustainability Centre. The network is supported by leaders in our Sustainability Centre and Product and Strategic Marketing teams. They are subject matter experts within their investment or sales teams, pursue specialised education and have performance objectives related to their responsibilities.

**They meet monthly** and are provided with training and briefings to keep their knowledge current on relevant ESG market developments, and on our ESG research methodology, exclusion policies and stewardship activities.

### Topics covered in 2023 include:

- Updates to our various ESG-related methodologies, including sustainable investments and net zero assessment.
- Overview of the Principal Adverse Impact (PAI) regulation and methodology.
- Our forthcoming Equality Roadmap and approach.
- Sessions on the Task Force on Nature-related Financial Disclosures (TNFD) and deforestation risks in portfolios.
- Various topics related to climate including fiduciary duty through the lens of net zero, outcomes from COP28 and decommissioning challenges in the energy sector.
- Update of our Global Sustainability Strategy.
- Overview of our voting and stewardship activities.
- Review of our ESG data and research strategy.

# Network of Experts in Sustainability Transition

Many members of the Sustainability Centre and a number of our ESG Champions count themselves as part of the BNP Paribas Group's Network of Experts in Sustainability Transition, or NEST. The members of NEST work not only within their businesses and entities, but also across the Group to share knowledge and support clients in their transitions.

The network comprises **over 700 employees** and, in 2023, organised **25 internal webinars attended by more than 3,000 participants.** In addition to this, they hosted NEST day, a sustainability conference for members of the NEST network with external experts on topics such as climate change and the Just Transition. NEST published four newsletters in 2023 on the ecological and just transition, capitalising on the knowledge of more than **100 internal and external experts**. This included a special edition on the Just Transition, which used as its foundation a study of almost 10,000 Europeans on the speed and consequences of the energy transition.

# Professional development: Sustainability Academy @AM

We recognise that the sustainable investing space and ESG issues are rapidly evolving, and it is critical that our employees keep up to date if they are to be successful in achieving their objectives. We also believe that sustainability education is a key lever to building a strong culture of sustainability, to attract and retain employees and to ensure we successfully deliver on our business strategy.

We are investing significantly in ensuring that our employees have the most current knowledge on sustainability issues. In 2022, we formalised our approach to sustainability education by developing a sustainability education strategy and launching the Sustainability Academy @AM.

This involved developing six different training paths for our employees depending on the level of sustainability knowledge they require in their roles. Each training path requires between 4 and 15 hours to complete with certain employee populations needing to complete an external certification in addition to this. We rolled out these training paths to all employees in 2022 and completion of the training was formalised into many of our employee development plans for 2023.

## Some highlights from training we developed in 2023 include:

- Integrating our Sustainable Investing Primer e-learning, co-built with the CFA Institute, into a number of employee learning paths.
- Making Net Zero and Equality part of the central themes of our annual three-day Investment Symposium.
- Designing a three-hour workshop for our Investments teams on ESG integration processes, regulations, tools, data and governance, including case studies on best practices presented by different investment teams across all asset classes of the firm.
- Embedding sustainability into our FAME (Financial & Asset Management Expertise) training curriculum and our Demystification series designed for a wide range of employees, with a focus on biodiversity and SDGs in 2023.
- Rolling out the Climate Fresk and Biodiversity Fresk workshops globally. These interactive three-hour workshops are designed to teach the basic science behind climate change and biodiversity, and actions individuals and companies can take to combat it. In total, 461 employees have participated in the workshops.
- Rolling out sustainability training to a number of our Joint Ventures and Affiliate businesses.
- Developing a specialised workshop on sustainability to be used to train internal BNPP AM boards.
- Making available new ESG Certifications to our employees including the CFA Certificate in Climate Investing and the PRI in Alternative Investments certificate.

We are pleased with the level of uptake of the training strategy with employees spending on average 4 hours and 37 minutes on internal sustainability-related training in 2023. This does not included the many hours our employees spent studying for external certifications.

## In addition to internal training:

- 709 employees have received a sustainable finance external certification such as Certification AMF Durable, CFA Certificate in ESG Investing or Certificate in Climate and Investing, EFFAS Certified ESG Analyst, or one of the certificates offered by the PRI. 68% of our sales and 71% of our investment teams have completed an ESG certification.
- Of the employees with external certifications, 27 employees completed a certification programme developed by BNP Paribas Group with the University of Cambridge's Institute for Sustainable Leadership (CISL). The CISL Positive Impact Business Certified Training is a 7.5-day course, delivered online and in person in 2023, over a three-month period and tailored to sustainability and finance. On completion, graduates became Positive Impact Pioneers, a community of internal sustainability experts who develop projects that drive positive impact within the organisation. In addition to this, 234 employees completed an 8-hour online version of the training.

**We have added questions on sustainability skills to our most recent employee engagement survey and 76% of employees said they had the correct level of sustainability-related training to perform their role.**

We believe we have developed an effective strategy for ensuring that our employees have the skills and knowledge they need to help us deliver our strategy over the long term. We believe we have an effective approach to ensuring our employees have the right training; however, sustainability is evolving rapidly and we plan on introducing new topics and dive deeper into existing topics in 2024 to continue to keep them current. This includes training on avoiding greenwashing, regulatory changes and topics like net zero and biodiversity.

**709**

employees have received a sustainable finance external certification

**76%**

of employees said they had the correct level of sustainability-related training to perform their role

**461**

participants in environmentally-themed workshops (*fresques*) since 2019

# INCENTIVES

**We have tightened the alignment of our Remuneration Policy with our sustainability goals over the past few years, integrating sustainability with performance assessments, financial rewards and the professional development of our employees.**

Our rewards strategy is designed to achieve sound, responsible and effective remuneration policy and practices. In particular, it is designed to avoid conflicts of interest, protect clients' interests and ensure that excessive risk-taking is discouraged.

We use objectives to align an employee's activities with the company's goals. Sustainability-related roles and responsibilities are defined for a set of key internal functions most closely involved in delivering our GSS. Within these roles, specific sustainability-related objectives are assigned and cascaded down to teams and individuals. At the end of the year, the fulfilment of these objectives is assessed during annual performance reviews, which are a key input in the determination of the annual variable remuneration awards.

We continue to push sustainability-related objectives to a number of key employees, including investment team members as well as our ESG Champions. In addition, many roles, such as our ESG Champions, have compulsory ESG training incorporated into their annual objectives.

## Specific sustainability objectives were assigned to the following teams:

### Executive Committee

Where relevant, Executive Committee members have goals related to the successful implementation of BNPP AM's Global Sustainability Strategy and the integration of sustainability risks throughout our investment processes and stewardship activities.

### The Sustainability Centre

This team drives our approach to sustainability and is responsible for developing and implementing the firm's GSS, ESG Integration Guidelines, Stewardship Policy, Responsible Business Conduct and various other policies.

### Investment teams

As part of most investment processes, analysts and portfolio managers integrate ESG factors into company, asset and sovereign evaluations in different ways. Successfully implementing our ESG Integration Guidelines, including the aim to beat the related universe or benchmark on ESG scores and carbon footprint objectives, is a goal of our Chief Investment Officers and is disseminated to investment teams, where relevant.

### ESG Champions

ESG Champions have been appointed within Investments and the Global Client Group (GCG) and, liaising with the Sustainability Centre, help promote sustainability and integrate sustainability risks within each team.
Each investment team has at least one ESG Champion responsible for communicating issues related to sustainability risks to team members. ESG Champions' objectives reflect this, including additional goals specific to their Champion role.

### Product and Strategic Marketing

This team leads on the alignment of BNPP AM products with sustainable regulation and labels, which is reflected in its objectives. It also plays an important role in helping to lead the GCG ESG Champions network and in educating our clients and colleagues on sustainable regulation topics. This is reflected in the objectives of this department, and of its members where relevant.

### Quantitative Research Group

Members of this team co-develop ESG Scoring Research and monitor the link between ESG integration and investment performance. This is reflected in the objectives of this department, and of its members where relevant.

### Central Functions and teams

Our central functions (Compliance, Legal and Risk) and many other teams play an important role in implementing our sustainability agenda, and relevant sustainability goals are cascaded to team members from the Executive Committee member or department head.

# REFLECTING CLIENT NEEDS IN OUR INVESTMENT SOLUTIONS

**We have several touchpoints with clients to ensure that we can help them achieve their investment objectives:**

- Client Relationship Managers have a deep and detailed knowledge of their clients' businesses, understanding both the challenges they face now and those they are likely to face in the future.
- Client Account Managers are responsible for the day-to-day management of clients invested in mandates or dedicated funds.
- We use third-party consultants to conduct in-depth interviews with investment decision-makers to ensure we understand global trends and needs.

During the pitching process and client onboarding, we make an assessment of a client's investment needs and gain an understanding of their sustainability goals.

We meet regularly with clients to update them on their investments and to assess any changes in their investment circumstances, including those related to sustainability. We ask clients and prospects to whom we provide a MiFID service about their ESG preferences through the MiFID ESG questionnaire.

We also recognise that we have a role to play in moving our clients along the sustainability curve.

We do this largely through the training we provide them via our Investment Academy, created in 2009 with the purpose of sharing knowledge and expertise with our clients. Classes are delivered online and in-person, with over 15,500 people having attended since inception.

**We cover a number of technical and regulatory topics affecting the asset management industry and we have always had a focus on sustainability. Among the topics included in the 2023 curriculum were:**

- **The basics of Sustainable Investing:** the importance of sustainable investing, types of ESG products, introduction to regulation and sustainability stakeholders.
- **Stewardship:** introduction to stewardship and proxy voting.
- **ESG implementation:** custom training covering the fundamentals of integrating ESG within portfolios.
- **Sustainable Investing Advanced:** four-hour in-depth training built in conjunction with our Sustainability Centre experts.
- **CFA x BNPP AM:** Sustainable Investing Primer.

HIGHLIGHT

## Partnering with the CFA Institute to launch the Sustainable Investing Primer

With the CFA Institute, the global association of investment professionals, we launched an e-learning primer to support the understanding of the importance of acquiring ESG skills and the growing need for greater sustainability knowledge and awareness among finance and investment professionals. This is part of an ongoing partnership that started with the award-winning Sustainable Investing Gameshow. The e-learning module, jointly developed with the CFA Institute, is available to all our clients and staff.

**The Sustainable Investing Primer consists of a two- or three-hour online course covering topics such as:**

- climate change and the mainstreaming of sustainability;
- an introduction to ESG analysis and the concept of materiality;
- different approaches to sustainability;
- greenwashing;
- ways to assess sustainability credentials.

It is important for us to ensure that our clients understand the evolution of the marketplace and we see this training as furthering this goal.

# How we communicate with and report to our clients

Our goal is to provide our clients with information that can help them better understand how we have implemented what they have asked of us and the sustainability characteristics of their investments.

### On an annual basis

We publish our Sustainability Report, Stewardship Report, Voting Report and Principles for Responsible Investment (PRI) Transparency Report to provide an overview of our sustainability-related activities for the year. We also repackage this content into more easily digestible pieces that are shared with clients throughout the year.

### On a semi-annual basis

We produce a Solidarity Investment Report for our clients who invest in funds that finance the development of the social economy. The report outlines the outcomes and impacts of these investments along with case studies of various individual investments.

### On a quarterly basis

We produce targeted reports for our institutional clients invested in dedicated funds or mandates and hold meetings with them to discuss the reports. Portfolio managers or product specialists usually join the meetings and go through performance in detail. Sustainability topics are often covered at these meetings.

### On a monthly basis

- For applicable funds, we generate fund reports and factsheets that include ESG metrics such as the carbon footprint, ESG score and ESG contribution of their portfolios versus their respective benchmarks.
- We have introduced a new chapter on sustainability metrics in our reporting to institutional clients.

### On an ongoing basis

- We publish reportings linked to labels or any other sustainable classification such as extra-financial reporting for French SRI label, fund transparency reports or impact reporting.
- In line with MiFID II regulation amendments, we have started to publish European ESG Template (EET) reporting.
- We share thought leadership with our clients on sustainability topics throughout the year, and publish shorter pieces, podcasts and videos on sustainability topics in our Viewpoint blog.
- We publish key policies, guidelines and annual reports covering stewardship, voting, compliance and assurance on a dedicated page on our corporate website.
- We send ad hoc updates on new developments related to net zero, including podcasts, videos, blogs and other thought leadership, Sustainable Finance Disclosure Regulation (SFDR) and other policy matters.

Dialogue established by our sales teams with our clients on sustainable investing is essential. To do this effectively, it is important to provide our sales representatives with the right training and tools, in a variety of formats and for educational purposes, to ensure relevant and useful dialogue with our clients. Client-facing members of our Global Client Group have their own learning path in our Sustainability Academy @AM and are encouraged to obtain third-party sustainability certifications to better equip them to engage with our clients (see page 19).

The marketing and communications teams have long been committed to reporting on our actions and produce multiple media (brochures, videos, client events, podcasts, articles, infographics, etc.) to help our clients understand the challenges and opportunities presented by sustainability.

To improve the effectiveness of our client communications, a sustainability coordination committee meets monthly with members of the sales, marketing, communications and Sustainability Centre teams to ensure activations and share best practices. The head of the coordination committee also contributes information at each meeting of GCG ESG Champions on activations and tools made available to them.

In 2023, we strengthened our ESG reporting to institutional clients by including an ESG chapter with sustainability metrics such as ESG scores and carbon footprint data. We also continued to keep our clients abreast of evolutions in SFDR, implementing net zero investment strategies and other thought leadership on sustainability topics.

HIGHLIGHT

## Taking the temperature

**We partnered with BNP Paribas Corporate and Institutional Banking and Coalition Greenwich to survey institutional investors and intermediaries on thematic investing. The global survey was meant to better understand their objectives, preferred themes, selection criteria and investment plans. Highlights from the** 2023 BNP Paribas Thematics Barometer:

- Achieving a positive impact or contributing to sustainable outcomes is the main overall objective in using thematic investing, with enhancing investment returns the second most important.
- The most appealing sustainability theme is renewable or clean energy followed by climate change solutions.
- U.S. investors' appetite for thematic investing is much lower compared to Europe and Asia.
- 84% of investors think that employing thematic investing has a positive impact on long-term investment performance.

# CONFLICTS AND ASSURANCE

**We have fiduciary duties to our clients and beneficiaries, and we believe that by putting our clients' interests above ours or our employees', we can assure stakeholders of our integrity.**

## Conflicts of interest

**All employees of BNPP AM are bound by the BNP Paribas Group Code of Conduct, which imposes obligations to work in clients' best interests by:**

- Providing clients with the most appropriate products and services.
- Giving clients clear, honest and non-misleading information and, when requested, an opinion related to expected performance, associated risks and pricing.
- Providing quality service that promotes the client's best interests.
- Treating clients fairly, without giving any client (or other counterparty) undue preferential treatment.
- Behaving transparently, notably by making available, at the client's request, any information related to the service or product offered or subscribed.

**Our executive team has embedded a culture throughout our business where clients' interests must be given priority and no client will be disadvantaged. To ensure this:**

- BNPP AM is appropriately segregated from other businesses within BNP Paribas Group. We use ring-fenced IT systems to conduct our business.
- Decisions within BNPP AM must be taken in the interests of its clients, even if such decisions may be detrimental to, or conflict with, the interests of a client of another business area or a proprietary interest of BNP Paribas Group.
- Staff working for BNPP AM must remain independent and neutral in the performance of their duties and responsibilities.
- The governance arrangements for the asset management activities of BNPP AM also function independently from the BNP Paribas Group. This includes BNPP AM's hierarchical reporting line, which is separate from those of other BNP Paribas Group businesses and converge only at the level of the Executive Management Committee of BNP Paribas Group.

Employees are reminded of applicable policies and procedures during mandatory annual training and other training sessions during the year, and by regular communications of regulatory changes. In addition, as a matter of policy, procedures (including those related to conflict management) are regularly reviewed and updated as required.

**If a conflict of interest arises and the implemented policies and procedures are not sufficient to ensure with reasonable confidence that the interests of a client will be protected:**

- BNPP AM must clearly disclose the general nature and sources of the conflict to the client before undertaking business for the client and such disclosure must be approved by Compliance.
- Under BNPP AM's policy, over-reliance on disclosure without adequate consideration of how conflicts may be managed appropriately is not permitted.

### Identification and management of conflicts

To identify potential conflicts of interest, a mapping exercise has been conducted and the results have been used to create Conflicts Registers for BNPP AM, which are maintained and reviewed regularly by our local Compliance teams. Employees of BNPP AM should also detect and identify any potential conflicts of interest and inform their local Compliance team to manage the potential conflicts and update the Conflict Registers if needed.

They contain details of actual or potential conflicts that may arise between BNPP AM (including its employees) and its clients (or between clients of BNPP AM).

These registers are an essential tool for the management of actual or potential conflicts of interest.

- Senior management of BNPP AM receive written reports at least annually on the situations contained in the conflicts of interest records.
- Moreover, senior managers must take appropriate steps in their oversight of the business and are required to demonstrate their accountability, including conflicts of interest management.

# Assurance

**Delivery of our business strategy, including our sustainability activities, is subject to a set of internal controls comprising three lines of defence, per BNP Paribas Group's Internal Control charter.**

- Our first line of defence is that internal control is a matter for every BNPP AM employee, whatever their hierarchical position or responsibilities. Managers and their respective staff constitute the first line of defence. They are accountable, at each level of the organisation, for achieving the objectives and monitoring the risks of the businesses or services they operate or deliver.
- Our second line of defence is provided by entities exercising second level controls, namely, risk, compliance, legal (integrated control function), Group tax and Group finance. They are responsible for defining and implementing the management framework of accounting and financial information risk (non-integrated control functions).
- Our third line of defence is provided by the *Inspection Générale* of BNP Paribas Group, an independent and hierarchically integrated internal audit function, which reports directly to the Chief Executive Officer (CEO) of BNP Paribas Group.

**Finally, we seek external assurance in certain areas of our business to provide third-party verification and validation of our approach and outcomes:**

- EY provides an independent assurance report on the alignment of BNPP AM's impact management systems with the Operating Principles for Impact Management.
- EY also audits our Socially Responsible Investment (SRI) labelled funds marketed in France. We are currently assessing the feasibility of having future years' Sustainability Reports externally assured.

We review our procedures every three years to ensure they are still current and effective. In practice, the main policies governing sustainability within our investment approach are reviewed at least annually either in our Sustainability Committee or in our Stewardship Committee.

In 2023, we underwent a review by the *Inspection Générale* of our sustainability governance, communications, sustainability product definitions, and the control framework in place surrounding sustainability. This was a follow up from a 2020-2021 review of our sustainability-related activities by the *Inspection Générale*, which provided us with second-party validation of our policies and processes.

We believe that this multi-pronged approach provides us with an arms-length opinion of the validity of our policies and processes and helps to ensure our communications are fair, balanced and understandable.

## Protecting against greenwashing

There has been growing skepticism around how deep the implementation of ESG integration and sustainable practices really goes. Our clients trust us to steward their assets in a sustainable manner and it is a privilege we take very seriously. In 2023, we went further to safeguard that trust by issuing guidelines to our employees about greenwashing, what it is and how to avoid it, including in the terminology used within corporate and marketing collateral. We also provided numerous presentations and training sessions to various management teams to reinforce the importance of our guidelines and ensure that they are adhered to in everyday business matters. In 2024, our plan is to launch new training modules on the topic.

# THE 3Es

# THE 3Es

**We believe a better world is one with an economic model built on a successful *energy transition*, healthy *ecosystems* and greater *equality* in our societies – our 3Es. These are critical preconditions that together represent a pathway to the economic sustainability that enables us, as investors, to safeguard long-term returns.**

## A forward-looking perspective

Through the process of developing our Global Sustainability Strategy, we identified three critical preconditions for a more sustainable and inclusive economic system: a successful energy transition, healthy ecosystems and greater equality in our societies.

Taken together, these form a pathway to economic sustainability that will enable us, as investors, to safeguard long-term returns. 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. This section details how we are addressing these risks to help promote well-functioning markets.

### Market-wide risks

The identification of market-wide risks is an essential task for any asset manager and is performed by different groups within the Investments division of BNP Paribas Asset Management (BNPP AM).

Our Macro Research and Investment Strategy team is charged with providing well-researched, high conviction, counter-consensus views to portfolio managers to support their investment decisions. The team now has six economists responsible for covering macroeconomic and economic policy and political developments in key regions of the globe, as well as two strategists responsible for covering the core asset markets: fixed income, foreign exchange, commodities and equities.

The credit research team within the Global Fixed Income department performs the same function, focusing on analysis of the fundamentals of private-sector issuers within the universe of corporations that we invest in. Our investment teams are permanently engaged in assessing potential market moves and the risks to individual positions or to entire portfolios. Risk managers supporting our Fundamental Active Equities and Global Fixed Income groups work closely with investment teams to carry out regular and ad hoc stress testing analysis using our investment management system.

Combined with and supplementing other risk measures and reports, such as tracking volatility and Value at Risk (VaR)/Expected Shortfall, stress testing gives us important insights into how portfolios are expected to perform in a range of possible scenarios. The risk managers regularly conduct analysis of prospective and customised scenarios, as well as reviews of historical scenarios for relevant data.

While we know history never repeats itself exactly, such reviews allow us to identify acute sensitivities to factors that manifested themselves in past market regimes and environments, and to assess their relevance to today's conditions.

## Energy transition

**Energy transition is the term now widely used to describe the structural shifts that are occurring in the global energy system. Propelled by the climate crisis, there are four main drivers of this energy transition:**

- public policy;
- technology;
- changing consumer preferences;
- changing investor preferences.

These four factors operate in a feedback loop, so the energy transition will likely intensify and accelerate over the next decade. The transition is an opportunity in the short, medium and long term to boost growth, both from increased investment in the low-carbon economy and by fostering innovation and technological progress. In the long run, it is the only plausible growth we can aspire to, and those who do not adapt will be left behind.

Our approach to the energy transition incorporates the notion of a 'just transition' to ensure that the shift will be inclusive and responsive to the needs of displaced workers and those communities and regions most affected by climate change (aligning with E#3, Equality).

Our Net Zero Roadmap outlines our commitments related to our investment, stewardship and operational practices.

THE 3Es

# Healthy ecosystems

**Unless we act immediately and radically to reverse environmental degradation, not only will we destroy our natural capital, we will be unable to sustain the economic growth rates and prosperity levels that populations in developed countries enjoy, let alone extend these to developing nations.**

As an asset manager with a broad range of clients that all depend upon a stable biosphere, we have the dual responsibility of understanding how our investments impact nature – our role in driving this crisis – and how nature loss may translate into financial risks.

Our overall objective is to improve the environmental impact of our investments. We have two targets with respect to our water and forest footprints:

- Improve the water efficiency of our investment portfolios, especially in water-stressed areas, and measure and disclose the water footprint of our portfolios. We encourage water-intensive companies operating in water-stressed areas to significantly improve their water efficiency while ensuring water access to local communities.
- Support global efforts to end forest loss by 2030. Our target is for relevant companies in our portfolios to:
  - Adopt No Deforestation, No Peat, No Exploitation (NDPE) commitments for agricultural commodities (palm oil, soy, paper, timber and beef products).
  - Adopt NDPE commitments by 2030 for non-agricultural sectors (mining, metals, infrastructure, etc.).

Our Biodiversity Roadmap details the plan we have made, and we have separate reports on our portfolio biodiversity footprint and exposure to deforestation.

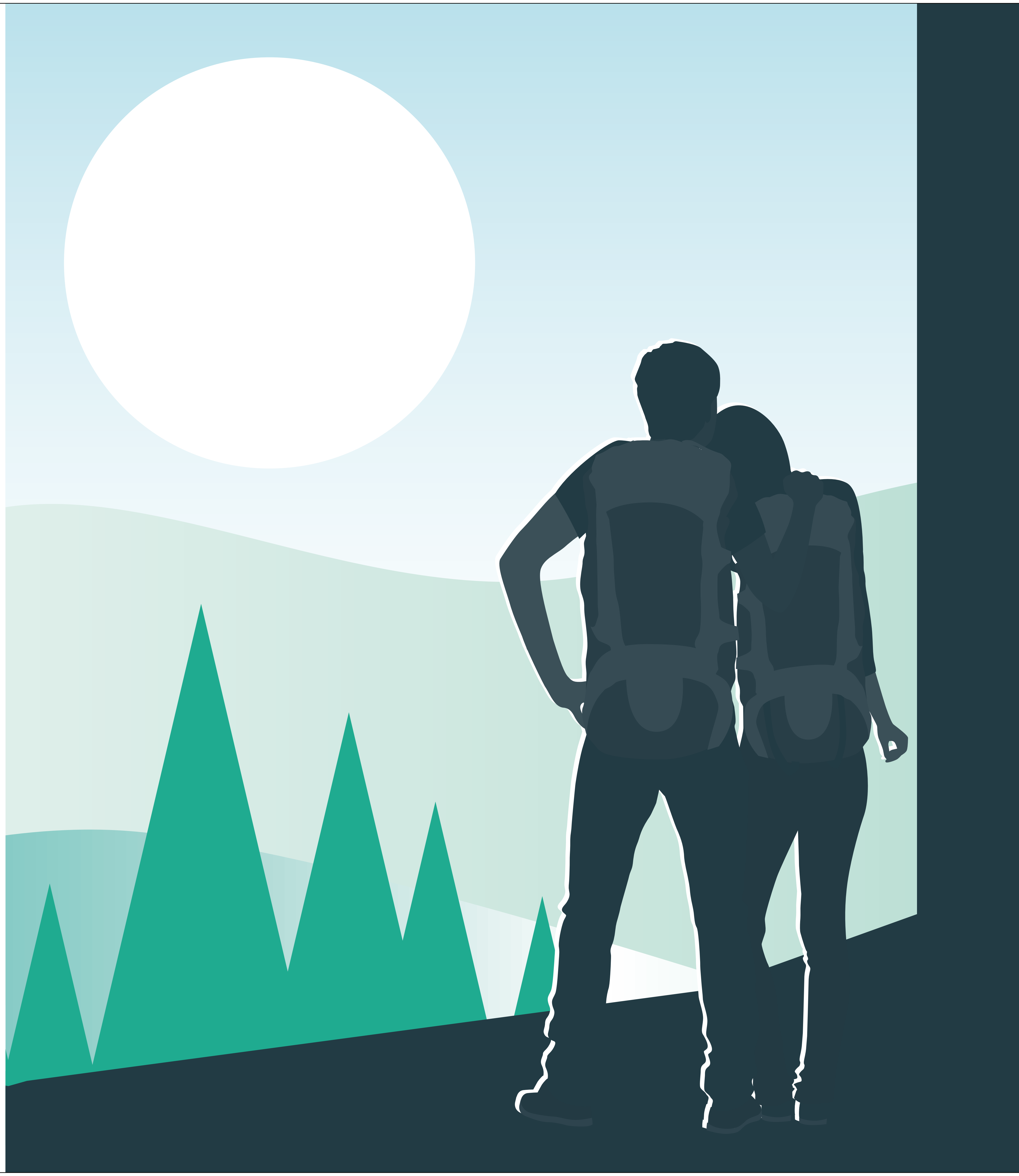
# Equality

**Inequality threatens the legitimacy of the competitive marketplace. Unequal access to opportunities widens the gap between the wealthy and the rest of society, threatening social mobility, cohesion and stability, and creating downward pressure on aggregate demand.**

Investors can approach inequality as an opportunity to foster economic growth, reverse wage stagnation, increase purchasing power and improve financial market stability along with social cohesion. Addressing gender or racial discrimination and investing more in employees have the potential to yield benefits worth trillions of dollars for global economies.

Our objective is twofold: to improve the way we invest by better understanding and evaluating social risks and opportunities; and to play a constructive role by promoting equality and challenging corporate actions that compromise investors' ability to achieve broad-based wealth creation.

We will outline objectives and targets in our approach for tackling inequality when we release our Equality Roadmap in 2024.



CASE STUDY

# Exploring the roots of our exposure to deforestation

**CONTEXT:** Deforestation and the conversion of natural ecosystems can pose a long-term risk to our investments and society. At the same time, there has been little research on connecting investment portfolios to this risk.

**ACTIVITY:** In 2023, we quantitatively assessed the exposure of our corporate holdings to potential deforestation and conversion of natural ecosystems through corporate production and consumption of forest and ecosystem-risk commodities (FERCs). The objective of this analysis was to further assess the current state of quantitative data and set a precedent for the industry, and also to identify companies we hold and FERCs that are driving deforestation and conversion of natural ecosystems.

We developed a proprietary methodology based on publicly available datasets from CDP, Trase, Forest 500 and Forest IQ to estimate the potential deforestation and conversion of natural ecosystems linked to our corporate holdings' production and consumption of selected FERCs by combining:

**1 -** disclosed production and consumption data for each FERC; and

**2 -** deforestation risk coefficient estimates for these FERCs.

This work is exploratory; from among the €171 billion of our corporate assets under management (AUM), we managed to retrieve estimates of deforestation and conversion of natural ecosystems in hectares for only 6% of these AUM. Even though narrow, this result is still interesting, considering that we focused our analysis on four sectors consuming or producing the highest share of FERCs (consumer staples, consumer discretionary, materials and energy). These represent 24% of our corporate holdings. Outside of these sectors, our exposure to deforestation is limited. It is important to note that this analysis presents the total exposure of all investors in the companies we assessed, since we did not consider our ownership share in each company. Results show our corporate holdings are mainly exposed to potential deforestation and conversion of natural ecosystems associated with palm oil in Indonesia, Malaysia and Colombia, as well as cocoa in Côte d'Ivoire. Palm oil has been on investors' radar for some time, but these results suggest cocoa should be a priority as well. We find that a large share of the potential deforestation and conversion of natural ecosystems is declared 'deforestation-free' by companies, but few of them have strong traceability systems in place, which raises questions over the credibility of these claims.

**OUTCOME:** This study enables us to further identify the companies on which we want to focus our research and engagement, such as:

**1 -** companies in relevant sectors that report only partial quantitative data and/or no quantitative data;

**2 -** companies in our portfolios that potentially drive the largest share of deforestation and conversion of natural ecosystems and that do not have strong No Deforestation, No Peat, No Exploitation (NDPE) policies or traceability systems, and;

**3 -** companies that claim deforestation-free production and consumption, but have not put in place strong traceability systems.

In addition, to close the data gap, we urge companies to further disclose quantitative information related to their FERC sourcing and production. We plan to apply this methodology to specific portfolios and use this information to engage and educate portfolio managers and clients about deforestation-related risks in their portfolios, and identify potential investment opportunities in companies that are managing their FERC impacts and risks appropriately. Lastly, we will continue to leverage the six pillars of our approach to sustainability to reduce the environmental impact of our investments, with a focus on forests.

**Robert-Alexandre Poujade**
ESG Analyst and Biodiversity Lead

*"Our analysis found a large share of the potential deforestation and conversion of natural ecosystems is declared 'deforestation-free' by companies, but few of them have strong traceability systems in place."*

# Participation in additional regulatory and market-shaping initiatives

We engage with policymakers, regulators and other market participants in various market-shaping initiatives to better align regulations and policies related to the functioning of financial markets, corporate governance and other topics related to the 3Es.

BNPP AM has a long-term commitment to, and successful track record of, public policy engagement to advance its sustainability goals. We advocate both to strengthen ESG considerations within the financial sector and, more broadly, to improve sustainability-related regulation for the markets in which we invest.

We actively engage policymakers, 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 also add our voice to the advocacy of many organisations at the forefront of calling for urgent, far-reaching policy action to address priorities related to the 3Es:**

- Jane Ambachtsheer, our Global Head of Sustainability, was a member of the Financial Stability Board's (FSB) Task Force on Climate-related Financial Disclosures (TCFD).
- Members of the Sustainability Centre hold positions on the leadership committees or boards of the ICGN, Global Network Initiative and the TNFD.
- We are a founding member of the Institutional Investor Group on Climate Change (IIGCC).
- We are a Strategic Partner of the Inevitable Policy Response.
- We are a member of the Investor Agenda and are robustly implementing its framework.

We believe that being an active participant in these discussions is an effective means to promote well-functioning markets. In the table on pages 31-33, you will find some of the memberships, investor statements and other initiatives we take part in. Participation in these bodies and initiatives keeps us current on systemic and market-wide risks and how they are evolving. In 2023, we undertook a review of our Global Sustainability Strategy; during this process, we reviewed the system risks identified – the 3Es – to ensure they remain relevant to our clients and our investment strategies.

HIGHLIGHT

# Staying connected with regulatory developments

**CONTEXT:** For the regulatory framework to reach its overarching objectives, it requires investment products to drive change through the allocation of capital and investors' willingness to invest in those products. Labels are an enabler of this synergy: through their standard-setting role and their inherent transparency, they provide investors with certainty and reassurance. At the same time, the EU is determined to secure a net zero and just future for its citizens while also outlawing greenwashing. In pursuit of these policy objectives, it established the Sustainable Finance Disclosure Regulation (SFDR) in 2019. Since then, the EU has held numerous consultations with stakeholders as it rolls out the implementation of SFDR and develops the associated technical standards.

**ACTIVITY:** In 2023, we took part in numerous consultations with standard-setting bodies in France and Belgium in their review of their respective labels (*ISR*[1] and Towards Sustainability). We also participated in a number of SFDR-related consultations.

**OUTCOME:** The new *ISR* and Towards Sustainability labels will include a new set of criteria with higher minimum standards. We are pleased with this outcome as we believe it will help investors shift more capital towards the transition.

In parallel, we welcome the upcoming review of the SFDR framework by the European Commission as a way to address the well-known limits of the current framework. Indeed, individual investors do not necessarily have the expertise to perform their own sustainability due diligence, so a product classification system with high minimum standards will provide individual investors with the level of sustainability they are looking for. The new standards will also help shape standardised disclosures so that products can be easily comparable. We would like to see a focus on key information so that it remains digestible to investors and for minimum sustainability standards and disclosure requirements to integrate benchmarks so investors can make meaningful comparisons across products and asset managers, helping to accelerate the transition.

**Laurence Caron-Habib**
Head of Public Affairs

*"We believe SFDR will build market-wide trust and pave the way for investors to reallocate their capital towards investment products that overweight sustainability in their investment allocation."*

**January 2023**
First consultation on the review of the Towards Sustainability label
*Central Labelling Agency*

**February 2023**
Consultation on Funds' sustainability naming
*ESMA*

**April 2023**
Second consultation on the review of the Towards Sustainability label
*Central Labelling Agency*

**May 2023**
Consultation on the review of the ISR label
*Comité du label ISR*

**July 2023**
Consultation on SFDR technical standards review
*ESMA*

**December 2023**
Consultation on SFDR review
*European Commission*

1 - *Investissement Socialement Responsable.*

THE 3Es

# Our memberships and pledges

| Name of Organisation, Initiative or Code | Supporter since | Climate change | Ecosystems | Equality | Governance | Finance industry association/Code | Other |
|---|---|---|---|---|---|---|---|
| Access to Medicine Index (ATMI) | 2016 | | | | | | • |
| Access to Nutrition Initiative (ATNI) Investors in Nutrition and Health | 2014 | | | | | | • |
| AIGCC Asian Utilities Engagement Program | 2021 | • | | | | | |
| Align | 2021 | | • | | | | |
| ASEAN Capital Markets Forum (ACMF) | 2021 | | | | | • | |
| Asia Investor Group on Climate Change (AIGCC) | 2018 | • | | | | | |
| Asia Protein Transition Platform (ARE) | 2022 | • | • | | | | • |
| Asia Securities Industry & Financial Markets Association (ASIFMA) | > 10 years | | | | | • | |
| Asian Corporate Governance Association (ACGA) | 2013 | | | | • | | |
| Association Française de la Gestion financière (AFG) | > 10 years | | | | | • | |
| Association of the Luxembourg Fund Industry (ALFI) | > 10 years | | | | | • | |
| Bank Negara Malaysia Joint Committee on Climate Change (JC3) | 2019 | • | | | | | |
| Belgian Asset Managers Association (BEAMA) | > 10 years | | | | | • | |
| Business Benchmark on Farm Animal Welfare (BBFAW) (Global Investor Statement on Farm Animal Welfare) | 2016 | | • | | | | • |
| Business Coalition for a Global Plastics Treaty | 2021 | | • | | | | |
| CDP | > 10 years | • | • | | | | |
| Cerrado Manifesto | 2018 | | • | | | | |
| Climate Action 100+ (CA100+) | 2017 | • | | | | | |
| Climate Change Technical Expert Group of the HK Securities and Futures Commission (SFC) | 2020 | • | | | | | |
| Climate China Engagement Initiative (CCEI) | 2023 | • | | | | | |
| Coalition for Environmentally Responsible Economies (CERES) | 2019 | • | • | • | | | • |
| Council of Institutional Investors (CII) | 2018 | | | | | • | |
| Dutch Fund and Asset Management Association (DUFAS) | > 10 years | | | | | • | |
| EFAMA (European Fund and Asset Management Association) | > 10 years | | | | | • | |
| Eumedion | 2018 | | | | | • | |

## THE 3Es

| Name of Organisation, Initiative or Code | Supporter since | Climate change | Ecosystems | Equality | Governance | Finance industry association/Code | Other |
|---|---|---|---|---|---|---|---|
| Farm Animal Investment Risk and Return (FAIRR) | 2021 | • | • | | | | • |
| *Forum pour l'Investissement Responsable* (FIR) | > 10 years | • | • | • | | • | • |
| Global Network Initiative (GNI) | 2019 | | | • | | | • |
| Global Standard on Responsible Corporate Climate Lobbying | 2022 | • | | | | | |
| Hong Kong Green Finance Association (HKGFA) | 2018 | | | | | • | |
| Hong Kong Stewardship Code | 2019 | | | | | • | |
| ICMA - Green Bond Principles | 2017 | | | | | • | |
| IFC - Operating Principles for Impact Management | 2019 | | | | | • | • |
| IIGCC Net Zero Engagement Initiative (NZEI) | 2023 | • | | | | | |
| Inevitable Policy Response (IPR) | 2021 | • | | | | | |
| Institutional Investors Group on Climate Change (IIGCC) | > 10 years | • | | | | | |
| Insurance Asset Management Association of China (IAMAC) | 2021 | • | | | | • | |
| International Corporate Governance Network (ICGN) | > 10 years | | | | • | | |
| Investment Association UK | > 10 years | | | | | • | |
| Investment Management Association of Singapore (IMAS) | > 10 years | | | | | • | |
| Investor Agenda | 2018 | • | | | | | |
| Investor Alliance for Human Rights / KnowtheChain (Investor statement on forced labor in global supply chains) | 2019 | | | • | | | |
| Investor Initiative on Hazardous Chemicals (IIHC) | 2023 | | • | | | | • |
| Investors Against Slavery and Trafficking (IAST) | 2023 | | | • | | | |
| Investors' Policy Dialogue on Deforestation (IPDD) | 2023 | | • | | | | |
| IPC (Investidores pelo Clima) Brazil | 2022 | • | | | | | |
| Italian Asset Management Association (Assogestioni) | > 10 years | | | | | • | |
| Malaysian Code for Institutional Investors | 2019 | | | | | • | |
| Monetary Authority of Singapore Green Finance Industry Taskforce (GFIT) | 2019 | • | | | | | |
| Nature Action 100 (NA100) | 2022 | | • | | | | |
| Net Zero Asset Managers Initiative (NZAMI) | 2021 | • | | | | | |
| Partnership for Biodiversity Accounting Financials (PBAF) | 2021 | | • | | | | |
| Pensions and Lifetime Savings Association UK (PLSA) | > 10 years | | | | | • | |

# THE 3Es

| Name of Organisation, Initiative or Code | Supporter since | Climate change | Ecosystems | Equality | Governance | Finance industry association/Code | Other |
|---|---|---|---|---|---|---|---|
| PRI Advance | 2022 | | | • | | | • |
| Principles for Responsible Investment (PRI) | 2006 | | | | | • | |
| ShareAction Investor Decarbonisation Initiative for the Chemical Sector | 2023 | • | | | | | |
| Sustainable Trading | 2022 | | • | | | | |
| Task Force on Climate-related Financial Disclosures (TCFD) | 2017 | • | | | | | |
| Tobacco-Free Finance Pledge | 2018 | | | | | | • |
| Transition Pathway Initiative (TPI) | 2017 | • | | | | | |
| UK FRC Stewardship Code | 2022 | | | | | • | |
| United Nations Environment Programme Finance Initiative (UNEPFI) | > 10 years | | | | | • | |
| Zoological Society of London (ZSL) SPOTT Crusher and Refiners; Timber, Pulp and Paper | 2018 | | • | | | | |
| **Investor statements and letters signed since 2021** | | | | | | | |
| BBFAW private letter to the EU Commission on animal welfare legislation revision | 2023 | | • | | | | • |
| Business Call for a UN Plastics Treaty | 2021 | | • | | | | • |
| CDP Open Letter to Governments on Plastics Crisis | 2023 | | • | | | | • |
| EPR Statement for packaging | 2021 | | • | | | | |
| Financial Institution Statement ahead of the Convention on Biological Diversity COP 15 | 2021 | | • | | | | |
| FAIRR G20 Finance Ministers letter on repurposing agricultural subsidies | 2023 | • | • | | | | • |
| Forum per la Finanza Sostenibile (ITASIF) Letter to the Italian State on Sustainability | 2023 | • | • | | | | • |
| Global Investor Statement on Water | 2023 | • | | | | | |
| FAIRR letter to FAO Director General requesting Global Roadmap for Food System to 2050 | 2022 | • | • | | | | • |
| IIGCC Chemical Sector Investor Expectations | 2023 | • | | | | | |
| Investor Statement in Support of the Maintenance and Expansion of the Bangladesh Accord | 2021 | | | • | | | |
| Investor Statement on Tobacco | 2023 | | | | | | • |
| PRI/Ceres - Investor expectations statement on deforestation in soybean supply chains | 2019 | • | • | | | | |
| Statement on COVID-19 ACT to support for an effective, fair and equitable global response to Covid-19 | 2021 | | | • | | | • |

# RESPONSIBLE BUSINESS CONDUCT

# RESPONSIBLE BUSINESS CONDUCT

We expect companies to meet their fundamental obligations to respect human and labour rights, protect the environment and ensure anti-corruption safeguards wherever they operate. We also have a series of policies that set out the conditions for investing in specific sectors and guide our screening requirements and engagement approach. We engage with many companies in areas in which they fall short and exclude the worst offenders.

## Our approach to Responsible Business Conduct

**It is our belief that companies' business conduct impacts the value and reputation of entities in which we invest. We expect companies to meet their fundamental obligations to respect human and labour rights, protect the environment and ensure anti-corruption safeguards wherever they operate, in line with the UN Global Compact Principles and OECD Guidelines for Multinational Enterprises (OECD MNE Guidelines).**

We will avoid investing in companies in violation of these standards and companies struggling to meet the standards will be put on a watchlist.

A series of policies set out the conditions under which we will invest in specific sectors and guide our screening requirements and related stewardship activities. These criteria are based on relevant international conventions and regulations (including the supplemental criteria provided by the OECD for sensitive sectors such as responsible agricultural supply chains and conflict minerals), BNP Paribas Group CSR Policies and voluntary industry standards.

In each sector, we highlight mandatory Responsible Business Conduct (RBC) requirements that must be met by issuers in order for us to invest.
In addition to the compulsory standards, we have also developed criteria that we encourage companies to comply with. The latter provide a good framework for further analysis and dialogue with companies.

Finally, we have a set of policies that commit us to exclude certain sectors or activities when we deem them to be in violation of international norms, or of causing unacceptable harm to society or the environment, without counterbalancing benefits. These are generally sectors where engagement makes little sense.

# RESPONSIBLE BUSINESS CONDUCT

## RBC STANDARDS

### United Nations Global Compact (UNGC) & OECD MNE Guidelines

**A universal benchmark for assessing companies based on 10 principles covering:**
Human Rights, Labour, Environment and Anti-corruption
**Including** the UN Global Compact Watchlist

+

### Sector-specific Requirements

**Implementation of minimum standards and exclusion criteria for sensitive sectors:** Agriculture, Coal, Controversial Weapons, Mining, Nuclear, Oil & Gas, Palm Oil, Tobacco, Wood Pulp

## The following principles govern our implementation of RBC within our investment processes:

1. Investment universes are periodically screened with a view to identifying issuers that are potentially in breach of **UN Global Compact Principles** and **OECD MNE Guidelines** or mandatory requirements applicable to controversial sectors and products.

2. This assessment is conducted by our Sustainability Centre based on **internal analysis and information provided by external experts,** in consultation with BNP Paribas Group CSR.

3. As a result of this process, we maintain two lists:
   - **An exclusion list of issuers** that are associated with serious and repeated breaches of UNGC Principles or mandatory requirements related to controversial sectors and products.
   - **A watchlist of issuers** that are at risk of breaching ESG standards, with whom we may engage in dialogue to encourage improvements.

**Our Sustainability Committee,** which includes our most senior executives and is chaired by our CEO, oversees changes to the exclusion list. The list is updated at least once a year. The Sustainability Committee must also approve the implementation of all new or updated sector policies, as well as the initial exclusion list or changes to the list as a result of these policies.

# ESG INTEGRATION

# ESG INTEGRATION

**By integrating considerations of relevant Environmental, Social and Governance (ESG) factors into our investment decisions, we can identify and assess potential areas of hidden risks and opportunities. Our ESG scoring and integration approach is applied across a wide range of investment strategies.**

We believe that analysing investments using ESG criteria helps us account for a wider set of risks and opportunities and better understand the role companies have in driving systemic risks and addressing the challenges of the transition towards a more sustainable and inclusive economy. This helps us make better-informed investment decisions in line with our fiduciary duty. We believe that ESG considerations are interpreted and taken into account by market participants in different ways. Coupled with inconsistent levels of disclosure by companies, this can lead to market inefficiencies which can create opportunities for ESG-savvy investors. While we expect corporate disclosure to increase, shifts in consumer, investor and regulatory expectations will likely persist in a dynamic environment experiencing secular change (particularly as a result of climate change). Against this background, we believe we make better investment decisions by identifying and sourcing relevant ESG data and integrating it into our investment analysis and decision-making.

**We accomplish this primarily in two ways:** through our ESG Integration Guidelines and through the development of proprietary sustainability research. We continue to implement our ESG Data Programme, which oversees the development and deployment of our various research methodologies. Through this programme we are developing internal capabilities to clean and manipulate data that can be used to support investment analysis, portfolio construction, and measurement and reporting. The functional relationship among our Sustainability Centre, Quantitative Research Group, Digital and IT teams is critical to our ability to develop and maintain our proprietary and third-party ESG datasets and deliver the results to our investment teams, clients and regulators.

## ESG Integration Guidelines

**Our ESG Integration Guidelines shape how our analysts and portfolio managers incorporate relevant ESG factors into their company or asset evaluation and portfolio construction decision-making processes. Specifically:**

- We avoid investing in entities without associated ESG research; and
- We apply better-than-benchmark (BTB) constraints on ESG and carbon for portfolios within the scope of our guidelines.

While recognising there are many possible approaches, we have defined these guidelines to serve as evidence of the integration of ESG factors in our relevant portfolios. We believe that we should apply the principles in the guidelines to all asset classes to the greatest extent possible. We promote these guidelines to our existing delegated managers and managers we partner with, and we will not delegate to new external managers who do not incorporate sustainability policies and practices.

For client mandates, we will apply as many of these principles as we can and promote greater incorporation of sustainability principles, while respecting the wishes of our clients.

## Proprietary Sustainability Research

The lack of correlation among ESG rating providers points to a lack of consensual ESG views and to the embedded biases in ESG rating model design and output. We chose to build our own proprietary ESG scoring framework to ensure scores are tailored to our needs and investment beliefs.

We apply our own definition of materiality – built on the latest thought leadership, our ESG analysts' extensive track record and the detailed industry and subject matter expertise of our sector analysts and portfolio managers – in order to hand-pick our metrics and weigh them appropriately. We look beyond headline values to evaluate individual metrics that can give valuable insight into investment risk and opportunities.

We apply an additional layer of data quality and control to the data we source from third parties to narrow our focus to the indicators that we deem have sufficient coverage, quality and insight. Covering nearly 13,000 issuers of securities, this helps our portfolio managers pinpoint an issuer's performance on material ESG issues and integrate this into their investment decisions. We believe our methodology is markedly differentiated, with a more focused number of ESG metrics and a clear preference for 'performance' over 'policy' indicators.

We also recently launched our proprietary Sustainable Development Goals (SDG) scoring framework. Similar to our approach to ESG scoring, we wanted more insight into the SDG performance of companies than we could obtain from off-the-shelf third-party data solutions. The SDG framework embedded in our SDG model provides granularity at the SDG target level and assesses the alignment or misalignment of company revenues at the business line or activity level. This information informs our Sustainable Investment determination, which is critical for Article 9 portfolio construction and security selection.

# The evolving regulatory landscape

There is a growing political and social drive to reallocate capital to activities that help tackle the sustainability issues the world faces. As part of this, regulators are requiring greater transparency on the degree of sustainability of financial products. Their aim is that more private investment can be channelled towards sustainable outcomes while preventing greenwashing.

The complexity and evolving nature of these rules mean asset managers need to remain vigilant. They must, in fact, ensure adherence to regulations and deliver on the claims their products are making in order to keep the confidence of their clients.

Since the implementation of SFDR in 2021, we have been transforming our fund range to align with its embedded principles. Today our assets under management (AUM) held in funds classified as Article 8 or 9 apply a number of sustainability binding constraints. Our adoption of these constraints not only reflects the scale of our commitment to the spirit of SFDR – over 90% of our open-ended fund range is now classified as Article 8 or 9 under SFDR – but also our ongoing ambition to be the 'sustainable investor for a changing world'.

For us, application of SFDR-linked criteria to our fund management processes has further emphasised our approach to ESG integration and has laid a firm foundation for the next phases of our planned ESG integration strategy.

| RBC Standards | ESG Integration Guidelines | | | | Regulatory Guidelines | | | |
|---|---|---|---|---|---|---|---|---|
| **Minimum Standards** | **Entity without an ESG score** | **Weakly-rated entities** | **Better-than-benchmark ESG scores** | **Better-than-benchmark carbon footprint** | **Minimum ESG coverage requirements under SFDR** | **E/S thresholds** | **SI thresholds** | **EU Taxonomy thresholds** |
| We will exclude issuers that are in breach of UNGC and OECD MNE Guidelines or that are not meeting our mandatory requirements applicable to controversial sectors and products. | We will avoid investing in a public entity without an ESG score, performing qualitative ESG analysis in the absence of a quantitative ESG rating. | Holdings of weakly-rated public entities (in active portfolios) will need to be justified by additional documented qualitative ESG analysis or engagement. | We should aim to hold portfolios with a more positive ESG score than their respective (invested) benchmarks. | We should aim to hold portfolios with a lower carbon footprint than their respective (invested) benchmarks. | We require at least 90% of ESG coverage for assets in portfolios investing in developed markets. The threshold is set at 75% for markets where data is harder to collect*. | We require a minimum percentage of assets aligned with 'Environmental/Social' characteristics for Article 8 funds. | We require 100% of assets** considered "sustainable investments", as per our methodology, for Article 9 funds. A minimum percentage is also defined for many Article 8 funds***. | A minimum EU Taxonomy alignment rate commitment is defined for each fund in scope. This alignment is calculated based on Bloomberg data. |

* Such as emerging markets, small-cap equities or high-yield bonds
** Except for cash and derivatives
*** This minimum % is specific for each fund

# Our proprietary ESG ratings

**Our proprietary ESG scoring framework benefits from the combined knowledge and expertise of three teams, helping to generate robust ESG insights for better-informed decisions:**

### Sustainability Centre

- Selects data providers and assigns metrics and weights to sectors;
- Assesses data quality and coverage with the Quantitative Research Group;
- Manages data corrections and qualitative overlays;
- Reviews key themes and sectors to identify key trends and update data models and overlays accordingly.

### Quantitative Research Group

- Analyses data quality, bias and metric correlations to inform and enhance the selection of metrics;
- Normalises the distribution of metrics scores;
- Provides technical expertise and solutions to build and maintain a robust scoring framework.

### Investment teams

- Involved in every step of the ESG scoring development process and related enhancements;
- Provide inputs for data corrections and overlays;
- Utilise scoring to support investment decision-making.

**We believe our ESG scoring is a powerful tool to help investment teams generate long-term sustainable returns for investors. It is:**

- Comprehensive, covering more than 13,000 issuers;
- Focused on materiality, using a limited number of material, insightful metrics for each sector;
- Investment insight-driven, built with and for investment professionals;
- Robust, with a statistically rigorous model developed with our Quantitative Research Group;
- Dynamic and forward-looking, integrating unique insights through qualitative overlays.

# Data, research and voting service providers

Our ESG research analysis and findings are independent and based on a wide variety of sources not limited to ESG data providers. These include the knowledge we gain from participating in various investment forums and communities, and our relationships with academic institutions and other aspects of civil society.

We select our ESG data providers using a two-step due diligence process. Our Quantitative Research Group begins by analysing providers' data sets. This includes examining the coverage of data and its quality, and a statistical review of estimation methodologies, among other items. At the same time, the Sustainability Centre performs a qualitative review of methodologies used and the relevance of selection criteria. Once we have selected a provider, we upload the data sets to our IT systems. We have a number of controls in place to ensure the completeness, accuracy and consistency of data. Our market data team oversees governance related to the relationship with the provider; as part of this process, we perform an annual review of our market data contracts. We have long-term relationships with our data providers and we work closely with them to ensure they are evolving their products and services in a way that meets our expectations. If after dialogue a data provider continues to fall short, we will look to terminate the relationship and replace the provider with one better suited to our needs.

ESG research brokers are selected, monitored and assessed through a formal process organised by our Sell-Side Relationship department. This means we count on and value the interactions our teams have with research brokers and follow up internally if we see declines in usage to understand why. This feeds into a process where twice a year, we assess the quality of the research and rate the provider. Annually, we conduct a formal review involving our Chief Investment Officers, research users (including the Sustainability Centre) and Sell-Side Relationship management where we decide whether to continue relationships with research brokers based on use and quality.

We use proxy voting providers to help us implement our voting policies. We do not delegate decision-making authority to them and we will take each voting decision for every shareholder's meeting internally with no outsourcing of the final decision. This ensures that our service provider delivers the outcomes we are looking for. Arrangements with proxy voting providers are reviewed annually.

# ESG data programme

In response to the growing importance of sustainability data to our overall business success, in 2021 we launched a firmwide multi-year ESG Data Programme responsible for overseeing the evolution of our data architecture.
This programme is one of the central transverse and strategic projects involving stakeholders from nearly every department.

The programme is organised across six different work streams and is intended to enhance the integrity of our ESG data as well as ensure it remains cutting edge.

**25**

employees working on the ESG Data Programme

| | |
|---|---|
| **STREAM 1: ESG Indicator** | Implementation of new indicators and evolution of the calculation of existing indicators |
| **STREAM 2: ESG Data Usage** | Transformation of data to end user needs |
| **STREAM 3: ESG Ambitions** | Forward-looking data requirements |
| **STREAM 4: Data Quality and Governance** | Control, governance and remediation of data |
| **STREAM 5: Issuer Referential** | Implementation of unique issuer data based on our needs |
| **STREAM 6: Data Sharing** | Development and implementation of data sharing protocols within the Group |

HIGHLIGHT

# Our specialised external data providers

- Sustainalytics provides us with raw data metrics that we use selectively to feed our ESG scoring model. We also use this provider for United Nations Global Compact analysis and controversies offerings.
- Trucost, CDP, Bloomberg, 427, TPI, SBTi and Climate Action 100+: we use these data sources for our climate change and physical risk analysis. Bloomberg and Trucost also provide us with corporate Scope 1 and 2 carbon emissions data.
- CDP, Trucost, Forest 500, TRASE, SPOTT, FAIRR and Iceberg Data Lab provide us with water, deforestation and biodiversity metrics we use to assess and report on the biodiversity footprints of our portfolios and holdings.
- ISS, Glass Lewis and Proxinvest provide us with governance research and data to feed our ESG scoring model.
- Beyond Ratings and Maplecroft provides us with data and research used in our ESG sovereign research and scoring framework.
- FactSet provides us with financial and enterprise value data.
- Bloomberg provides us with EU Taxonomy alignment rate data, which we use as part of our Sustainable Investment definition and EU Taxonomy alignment thresholds.
- We partnered with Matter to create a revenue-based SDG alignment model for corporates leveraging FactSet Hierarchy data, which is used as part of the Sustainable Investment definition.
- CDP, Bloomberg, Trucost, FactSet, Sustainalytics and ISS are also used to source certain SFDR Principal Adverse Impact (PAI) indicators.
- ESG and mainstream brokers provide us with research papers and other market information.

**Bérénice Lasfargues**
Sustainability Integration Lead

*"High-quality ESG data is at the core of our research engine. We take a 'buy and build' approach to our data programme as there is no single turnkey solution that meets our needs."*

ESG INTEGRATION

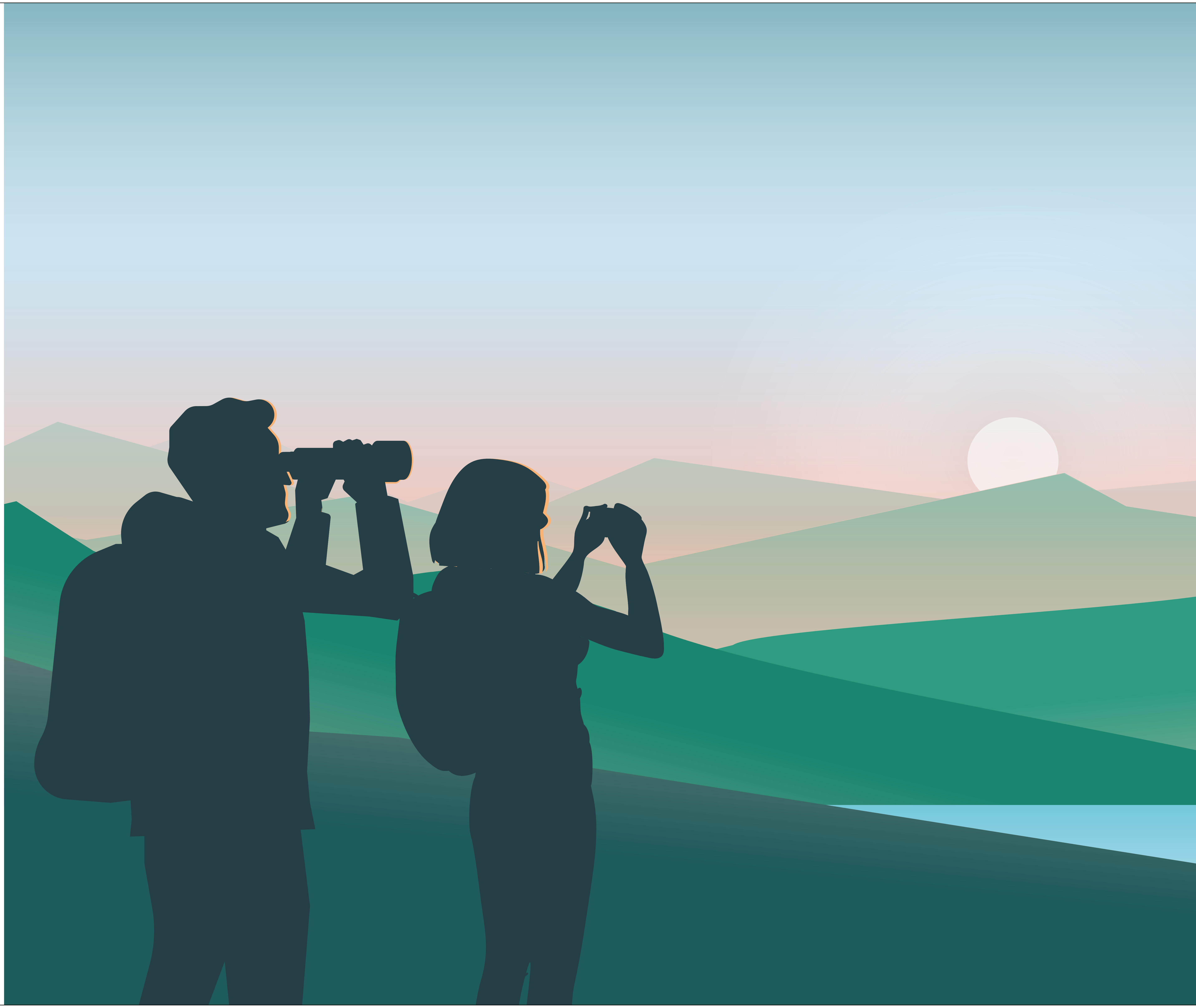
# Encouraging change in our value chain

We extend our analysis of companies' sustainability performance to some of our suppliers, and specifically our execution brokers. We have developed a process for assessing and rating the ESG performance of the brokers we use. The purpose is not only to encourage good corporate social responsibility practices within our value chain, but also the creation and expansion of the market for sustainability instruments.

We are part of Sustainable Trading, a non-profit organisation looking to better embed ESG practices in the financial markets trading industry. They achieve this in part by co-developing a set of best practices to be shared between members. The goal is to eventually assess members on the progress they are making in implementing these best practices within their respective organisation. Another goal is to provide benchmarking tools so that members can learn from each other.

**Emmanuel Blanc**
Head of Sell-Side Relationship Management

*"We see Sustainable Trading as an important catalyst of change within the value chain of the asset management industry. Our ongoing dialogue and workshops help us to collectively have a deeper impact as well as progress the goals of our Global Sustainability Strategy."*



# Examples of ESG integration

### Euro high yield bond (fixed income)

| Credit strategy committee | Portfolio strategy committee | Issuer selection | Portfolio construction |
|---|---|---|---|
| • Discussion of macro and credit outlook.<br>• **Definition of top-down views:** sectors including ESG indicators from Sustainability Centre and Sustainability Risk Assessment, rates and spread. | Based on top-down views, portfolio manager defines monthly model portfolio with Duration Time Spread contribution by rating and sectors based on credit research sector views and **ESG indicators.** | • Fundamental assessment of issuers (including ESG indicators and Sustainability Risk Assessment).<br>• **Selection based on:** Fundamentals - Relative value - Pricing and Technicals - ESG score. | • Build a robust portfolio taking into consideration client and strategic objectives **including the overall ESG and carbon scores of the portfolio relative to the benchmark.**<br>• Curve positioning, instrument choice, capital structure. |

### Blue economy equity (index strategy)

| Index provider selection | Methodology development | Index monitoring | Engagement with issuers |
|---|---|---|---|
| Review of index construction methodology, including the integration of sustainability in index construction, index ESG characteristics and the strength of the index provider's ESG research. | • Align index rule book with Towards Sustainability label guidelines and, as much as possible, BNPP AM Responsible Business Conduct.<br>• Determine definition, methodology and sub-themes of the Blue Economy investment clusters with the index provider in order to develop a custom methodology for rule book. | Continuous monitoring and engagement with the index provider to adjust rule book when significant discrepancies are identified. | Engage with selected constituents of the ETF as part of our overall firmwide engagement efforts to improve their sustainability practices, track their progress and report back to stakeholders. |

### Global equities (equity)

| Idea generation | ESG & fundamental analysis | Portfolio construction & risk management | Company monitoring & engagement |
|---|---|---|---|
| Proprietary screening for companies with a combination of sustainable quality, business momentum and valuation. | • Comprehensive ESG process using in-house scoring methodology and RBC Policy.<br>• Detailed company research including further ESG analysis, desk review, external research and company meetings.<br>• Financial modelling integrating sustainability and non-financial criteria to generate Internal Rate of Returns (IRRs). | • Risk management focused on revenue exposure, diversification and sustainability criteria.<br>• Better-than-benchmark ESG ratings and low-carbon footprint. | • Ongoing monitoring of all relevant companies.<br>• Continuous engagement by investment team on company performance including ESG.<br>• Firmwide global coverage of voting, engagement and stewardship. |

### Infrastructure debt (private assets)

| Normative and sector exclusions | Selection criteria | Qualitative ESG assessment | Quantitative environmental assessment |
|---|---|---|---|
| Exclusions based on international norms and controversial activities in line with the BNPP AM RBC Policy. | Selection of assets aligned with an ad hoc taxonomy specific to each fund objective. | Qualitative assessment of material environmental, social and governance risks and opportunities. | Climate and environmental metrics computed by an external provider, in order to determine the eligibility of the asset for the fund. |

HIGHLIGHT

# Investing in nature

**To meet the needs of investors who are increasing their allocations to sustainable private investment strategies, we decided to broaden our private markets investment platform by acquiring leading Danish natural resources specialist International Woodland Company.**

Forestry, agriculture and related natural capital strategies have attractive risk-return profiles and are important contributors to mitigating climate change and achieving net zero. Forestry, for example, offers appealing investment returns and inflation protection, as well as the potential for carbon capture and conservation projects. Almost all climate scenarios rely on Negative Emission Technologies, particularly forestry and other land use changes, to reach net zero emissions and limit global warming to 1.5–2°C in order to cover biogenic emissions and emissions from hard-to-abate sectors. Beyond this, forestry provides many benefits, including biodiversity preservation and water management, and the global climate system cannot function without healthy forests.

As an investment market, natural capital is still at a nascent stage. Nonetheless, the natural capital market is evolving rapidly, encouraged by initiatives from the United Nations and other supranational agencies, and is expected to be accompanied by the continued development of associated investment and growing client awareness. Private finance clearly has a role to play in addressing the challenges of protecting and restoring natural capital, as well as appealing to institutional investors looking to diversify into uncorrelated assets that can offer an inflation hedge and enhanced risk-adjusted returns. Additionally, it contributes to meeting the objectives of investors looking for sustainable strategies. We plan on launching exciting new strategies related to this asset class in 2024.

CASE STUDIES

# ESG integration in exchange traded funds (ETFs)

**CONTEXT:** Passive investment strategies are a growing part of our product mix, and for some time have contributed to our solutions to investing in sustainability, including pioneering on some ESG strategies such as Low Carbon or Circular Economy.

**ACTIVITY:** Since mid-2017, our ETF launches have focused on sustainable indices replication. We have worked with index providers to shift a number of our existing ETFs to ESG (and Paris-aligned or Carbon-Transition) benchmark indices in order to strengthen the sustainability characteristics of our ETF & Index funds range. 2023 was particularly important for fixed income: we launched four Fixed Income ESG ETFs and were ranked second in Europe by inflows in this segment.

**OUTCOME:** 88% of the ETF & Index funds range, representing €30 billion in AUM, is now classified as Article 8 or Article 9 according to SFDR regulations, including 100% of our fixed income ETFs. This will deliver real results: for example, the MSCI SRI S-Series 5% Capped range aims to reduce the carbon intensity of its portfolio by an initial 50% when compared to the traditional index it is derived from, followed by annual decreases of 7%, in line with the 1.5°C trajectory of the Paris Agreement. Our ETF & Index funds range covers equity and bond markets, several geographic areas and multiple ESG thematic investments.

We continued to expand this range in early 2024 with the launch of two new ETFs that include an active ESG approach. These active fixed income ETFs apply an index-like approach combined with our proprietary approach to sustainability, meaning our proprietary ESG methodology, exclusion policies and active engagement.

# Sustainability in private assets*

**CONTEXT:** Asset managers are increasingly applying sustainability criteria to investments in private markets as they seek to meet growing demand from investors and regulators for investment strategies that incorporate ESG considerations. While fund raising in private markets broadly lost momentum in the second half of 2022 as macroeconomic conditions changed, it was also the most successful year yet for private markets ESG investing.

ESG AUM in the segment have grown by 35% per year over the last decade. Despite these positive trends, which continued into 2023, data provider Preqin finds that only 42% of the AUM across private capital is managed by funds that have an active ESG policy.

**ACTIVITY:** We have been involved in a range of asset classes within private markets for a number of years. In 2023, we harmonised a number of different businesses involved in private assets by integrating them within BNP Paribas Asset Management in a new Private Assets business unit. As part of this move, we took the step of creating a cohesive approach to ESG integration across all private asset classes, setting a minimum standard in each while taking into account the specifics of each asset class.

Integrating ESG considerations into private assets requires significant resources and an approach tailored to each underlying asset. For example, for our infrastructure and real estate loan portfolios, we developed methodologies that measure the carbon and environmental impacts from the number of households gaining access to digital networks. For a small- to medium-sized (SME) issuer, we assess the level of awareness of a company's executives on ESG themes and analyse the choices the company is making.

* Private assets are investment opportunities that are unavailable through public markets such as stock exchanges. They enable investors to directly profit from long-term investment themes and can provide access to specialist sectors or industries, such as infrastructure, real estate, private equity, and other alternatives that are difficult to access through traditional means. Private assets do, however, require careful consideration, as they tend to have high minimum investment levels and may be complex and illiquid.

CASE STUDIES

## Growing green bonds

**CONTEXT:** As the sustainable investment space matures, investors are increasingly looking for new thematic products that incorporate sustainability attributes in the fixed income asset class.

**ACTIVITY:** Our fixed income investment teams work very closely with our ESG research analysts to mitigate and minimise any downside risks at the issuer level, but also to anticipate any positive impact opportunities through the Thematic Bonds investments. Our ESG scoring system grants bonuses to green and social bonds validated by our ESG analysts, meaning portfolio managers are incentivised to invest in more green and social bonds with positive social and environmental outcomes in their portfolios.

In addition to the Global Green Bond fund, we have launched dedicated green bond strategies focusing on corporates and on sovereigns and agencies. We continue integrating ESG into all our fixed income funds and growing climate solutions such as corporate and sovereign engagements. Our credit research team is also integrating ESG factors into their analysis through a Sustainable Risk Assessment.

To strengthen our contribution towards the development of the sustainable finance market, we were elected to the Executive Committee of the International Capital Markets Association Principles in 2023, and we have also joined the Impact Reporting Working Group coordinators as well as becoming one of the Advisory Council coordinators.

## Scoring sovereigns

**CONTEXT:** Rating the ESG performance of sovereigns is fundamentally different than it is for corporate issuers.

**ACTIVITY:** We adapted our ESG scoring methodology to provide a view of the ESG performance of a country and enable us to compare countries with different levels of economic development across a variety of environmental, social and governance dimensions.

Notably, we assess countries' ambition for tackling climate change with regard to their National Determined Contributions (NDCs), through detailed information on the policies adopted by countries to address climate change and their forward-looking physical climate risk exposure. In addition, we take into consideration countries' commitments concerning climate change, informing our engagement with them on this issue.

We also apply the BNP Paribas Group's sensitive countries framework, which includes risk mitigation measures for certain countries or activities that are considered particularly exposed to money laundering or terrorism financing.

And finally, as with our company scoring model, we incorporate qualitative inputs from the investment teams' in-depth knowledge, and from dialogue and engagement with debt management officials and policymakers. Our Sovereign ESG data model has equal weighting for each of the E-pillar (14 themes), S-pillar (12 themes) and G-pillar (7 themes), comprising a total of 225 Key Performance Indicators (KPIs) structured around 33 key themes.

**OUTCOME:** We have developed a robust scoring system that covers almost 110 countries.

We have also supplemented our scoring with direct engagements with governments. This includes discussions with policymakers from members of the European Union, Japan, the UK and Chile about their green, social and sustainability bond issuances, helping to clarify their strategy on climate change, the actions they are taking, progress achieved and the constraints they are facing.

ESG INTEGRATION

# Supporting cutting-edge research through GRASFI

In 2018, we established an academic partnership with the Global Research Alliance for Sustainable Finance and Investment (GRASFI) so that our investment teams would have access to leading research, helping to inform the broader debate as well as our own methodologies and investment approaches. The annual GRASFI conference brings together researchers from around the world to present their findings on a range of topics related to sustainability.

Each year, prizes are awarded for the best work in several categories. The prize for best paper of 2023 was awarded jointly to two papers: "Financial Market Response to Climate Litigation Against Corporations" and "The effect of Divestment from ESG Exchange Traded Funds".

These were two of over 40 papers presented at last year's conference, hosted by the Yale Initiative on Sustainable Finance and attended by members of our investment teams. We later presented a summary of the conference papers to our ESG Champions as well as posting summaries of a number of the papers on our blog, giving investment staff the opportunity to incorporate the findings into their own thinking.

# OUR COMMITMENT TO CLIMATE

# OUR COMMITMENT TO CLIMATE

**We believe a shift to a low-carbon, more sustainable economy is essential for the long-term health of capital markets. It is widely accepted that reaching global net zero emissions by 2050 is essential to prevent substantial and irreversible damage from climate change. This is imminent if no action is taken, which is why the transition to a low-carbon economy is one of our strategic areas of focus – one of our 3Es: Energy transition, healthy Ecosystems, and greater Equality in our societies – and why in 2022 we strengthened our years-long commitment to decarbonise our investment portfolios by releasing a roadmap to chart our path to achieving net zero.**

Committed to Climate: Our Net Zero Roadmap outlines our commitments and action plan to reach net zero emissions in our in-scope portfolios by 2050 or sooner. It is our strategy for assessing and managing climate change-related risks and opportunities within our investment portfolios and operations. In the following pages, we outline our progress on reaching these commitments as well as reporting to the recommendations of the Task Force on Climate-related Financial Disclosures. Our goal is to fine-tune and enhance this report over the coming years as our practices expand and evolve.

## Governance

### Board oversight

The BNP Paribas Asset Management Holdings board has ultimate responsibility over climate-related risks and opportunities.

- The board receives annual training on sustainability-related investment issues, climate change and our net zero approach.
- Our business strategy incorporates climate change risks and opportunities, and the board receives regular updates on how we are achieving our business goals. In addition, the board is briefed on and kept abreast of regulatory matters, many of which are related in part or in whole to climate change.
- The board is provided with overviews of any updates made to our Global Sustainability Strategy (GSS), which includes our approach to climate change and the energy transition.
- The board receives regular updates from management on our Net Zero Roadmap and our progress towards achieving the commitments we have made.

At the BNP Paribas level, sustainability, and more specifically the energy transition, is one of the Group's three key priorities in its 2022–2025 strategic plan and, as such, receives regular oversight from its executive management and board.

### Assessing and managing climate-related risks and opportunities

Our approach to managing sustainability risks, including climate, is part of our corporate governance framework. Several committees are in place to oversee the integration of ESG risks into the relevant investment process.

Our Net Zero Roadmap is overseen through a formal governance framework, ensuring appropriate supervision and oversight of our net zero commitment.

- Our Sustainability Committee, chaired by the CEO of BNP Paribas Asset Management, is responsible for the strategic direction of sustainability-related topics, including our net zero commitments, which are reviewed annually.
- The Investment Committee, chaired by our Global Head of Investments, oversees the implementation of these commitments and is responsible for the progress of the company towards net zero commitments at the asset class level.
- The Global Product Committee, chaired by the Global Head of Products and Strategic Marketing, is responsible for the oversight of the integration of sustainability-related criteria, including decarbonisation and net zero objectives, into each investment product strategy.
- We have also put in place the Sustainable Methodology Oversight Committee. This group is responsible for overseeing the development and implementation of methodologies, definitions, disclosures and processes related to sustainable regulation, including those related to climate change and net zero.

Learn more about our overall approach to sustainability governance.

Source: BNP Paribas Asset Management, 2023

# OUR COMMITMENT TO CLIMATE

## Our net zero commitments in brief

### Investments

**1 -** Reduce the carbon footprint of our in-scope investments by 30% by 2025, decreasing to 50% by 2030 (Scope 1 and 2)[1]

**2 -** Aligning in-scope investments with net zero: 60% by 2030, rising to 100% by 2040

**3 -** Exit coal by 2030 in EU and OECD countries, and by 2040 for the rest of the world

**4 -** Increase investment in climate and environmentally themed solutions

**5 -** Engage with our clients

### Stewardship

**6 -** Vote for climate action

**7 -** Engage with companies on net zero

**8 -** Advocate for NZ 2050 aligned climate policy

### Operations

**9 -** Reduce our operational emissions

**10 -** Report on progress

1 - "Scope 1" refers to the direct emissions from sources that are owned or controlled by the company. "Scope 2" refers to the indirect emissions linked to the company's purchased or acquired electricity, heat, steam and cooling. "Scope 3" refers to all other indirect emissions, including those related to the use of its products. Scope 3 emissions are not included in the calculation since the measurement of these emissions is not standardised or considered sufficiently reliable yet to be used in reporting. Given the importance of Scope 3 emissions in most sectors, we are evolving our approach to calculating Scope 3 emissions with the aim of including it in our approach in the future.

OUR COMMITMENT TO CLIMATE

# Strategy

While climate change presents significant risks to our business and our clients, if acted on now, it also presents substantial opportunities. We have identified climate change and the need for a successful energy transition as one of three key sustainability-related prerequisites for a stable financial system in our Global Sustainability Strategy. The GSS also outlines the levers – our six-pillar approach to sustainability – through which we can apply action to combat climate change and facilitate the energy transition through our business.

**In 2021, we raised our climate ambition by committing to the goal of achieving net zero portfolio emissions by 2050 (or sooner) and we joined the Net Zero Asset Managers (NZAM) initiative to lend coherence and accountability to our commitments.**

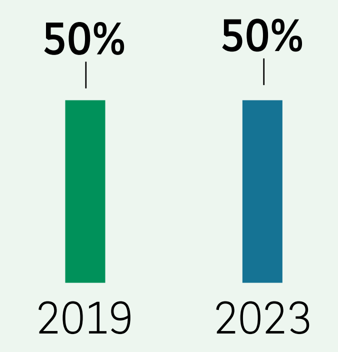
We then published our Net Zero Roadmap, covering the progressive alignment of our portfolio investments with the goal of reaching net zero emissions, together with associated efforts across our stewardship activities and operations.

To drive change, we have set a goal to decarbonise our investment portfolios. As an asset manager, we do not directly manage our strategic asset allocation per se. Rather, this is determined, to a large extent, by client demand for specific asset class strategies; our regional growth profile; and mergers, divestments and acquisitions, among other factors. Based on our current asset allocation and because of the lack of available data and methodologies in other asset classes, we have decided to focus on listed equities and corporate bonds in the first phase of our commitment towards net zero financed emissions. About half of our assets under management are within the scope of our initial commitment – a calculation made by focusing on funds in our range that are currently Article 8 or Article 9 under the Sustainable Finance Disclosure Regulation (SFDR).

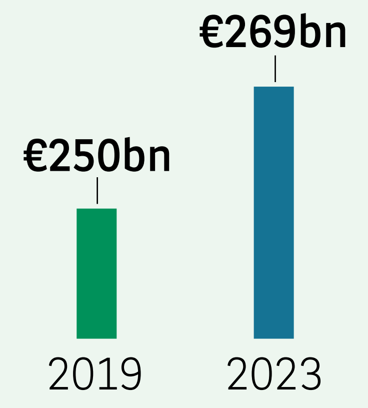
## 2023 metrics

While our in-scope AUM has not changed on a relative basis, our overall AUM that falls under the scope of our commitment has increased by almost €20 billion. We expect that our in-scope AUM will increase significantly as we introduce methodologies for sovereigns and agencies and add these to our scope.

**% of our AUM within the scope of our net zero commitment**




**Value of our AUM within the scope of our net zero commitment**




**We have contributed to the fight against climate change through significant actions and initiatives for several years.**

**2002-2018**

Brought to market a range of climate-focused strategies, including:

THEAM Carbon Offset and

Climate Care, Easy Low Carbon, Climate Impact, Green Bond

Founding member of: PRI, Montreal Carbon Pledge, Portfolio Decarbonisation Coalition

**Joined Climate Action 100+**

**2019**

Launched the dedicated Environmental Strategies Group (and Energy Transition strategy)

**Launched our Global Sustainability Strategy**

**2020**

Implemented our new Coal Policy

Introduced beat the benchmark on carbon footprint objective

Expanded our Unconventional Oil & Gas policy

**2021-2022**

Signed the Net Zero Asset Managers Initiative

Set 2030 portfolio alignment target

**Launched Net Zero Roadmap**

**Further tightened our Coal Policy**

**2023 +**

Launch net zero products

**Revise net zero targets on a 5-year basis**

Source: BNP Paribas Asset Management, 2022

# OUR COMMITMENT TO CLIMATE

**Climate is a key consideration in our product development and investment management practices. We have also developed a range of policies, procedures, methodologies and tools to help us contribute to the net zero goal, including our:**

- Net Zero AAA framework (Achieving, Aligned or Aligning), to measure the alignment of investments in corporates with climate goals.
- Sector-specific exclusion criteria within our Responsible Business Conduct (RBC) Policy, addressing the highest emitting sectors.
- ESG scoring framework that places strong emphasis on climate change.
- ESG Integration Guidelines that include better-than-benchmark goals for the carbon footprints of some portfolios.
- Consideration of climate-related Principal Adverse Impacts (PAIs) statement at the fund and entity level.
- Reporting of alignment with the EU Taxonomy on climate change mitigation.
- Methodology to identify Sustainable Investments as per the SFDR, including criteria related to the alignment of companies with EU Taxonomy climate objectives and climate-related Sustainable Development Goals (SDGs), as well as with the objective of maintaining the global temperature rise to below 1.5°C.
- Integration of climate change themes into our stewardship approach including our voting, engagement and public policy advocacy activities.
- Development of investment products that allow our clients to proactively invest in the energy transition and/or meet decarbonisation objectives.

We have used climate-related scenarios in a number of ways to support and implement our approach. For example, we provide funding and are a strategic partner of the Inevitable Policy Response (IPR), an initiative which forecasts the speed and scale of the transition to net zero. IPR have developed a Forecast Policy Scenario as well as a Required Policy Scenario, which identify the incremental progress needed to move to a net zero aligned scenario. We employ IPR tools, such as their Quarterly Briefing content, to educate and inspire debate among investment teams. We have also used IEA climate scenarios to inform the carbon intensity reductions we require in the power sector, as articulated in our RBC Policy.

## Time horizons

The implementation horizon for the commitments in our Net Zero Roadmap is from 1 January 2022 to 1 January 2050. However, because the climate investment landscape is changing so rapidly, with new scenarios, data and tools becoming available frequently, we expect to evolve the commitments outlined in this roadmap as we progress on our net zero journey.

**We consider the following time horizons to be relevant with respect to climate change:**

- short-term horizon to be 2025 as this is relevant for our business planning and our clients;
- medium-term horizon to be at or before 2030 as this is the date that the Intergovernmental Panel on Climate Change (IPCC) identifies as the point when carbon emissions must be halved;
- long-term horizon to be at or before 2050 as this is when we need to achieve net zero emissions as a society.

**We use a 2019 baseline for our carbon footprint reduction commitment.**

## Risks and opportunities to our business

Within our investment portfolios, we see risks associated with climate change manifesting largely in the following three ways:

- Transition risks: these are risks arising from a process of adjustment to a low-carbon economy and take the form of policy changes, or technological and physical risks, that can lead to a revaluation of many assets as costs or opportunities materialise.
- Physical risks: risks arising from the physical effects of climate change and environmental degradation (such as floods and storms, sea level rise, heat waves or droughts, which cause material damage or disrupt trade).
- Liability risks: consequences arising if parties that have suffered losses or damage as a result of the effects of climate change make representations to companies they consider responsible in order to obtain compensation. Such actions could occur against companies that extract and emit carbon and, if they have liability insurance, against their insurers.

## Indication of the economic sectors and geographical areas concerned

Our ESG scoring framework takes into account the fact that ESG risks are not always comparable between sectors and regions. It divides covered issuers into 20 sectors and four geographical areas, resulting in 80 groups of companies listed according to geographical and sectoral criteria.

## Resilience of the organisation's strategy, taking into consideration different climate-related scenarios

To date, we are unable to provide a reliable quantitative estimate of the financial impact of key environmental, social and governance (ESG) quality risks on our assets under management. Nevertheless, work is under way to assess the financial impact of the main environmental risks (temperature, precipitation and wind), and we will share additional analysis in due course.

# Risk management

## Identifying and assessing climate-related risks

### Materiality heat map

We developed a materiality heat map to underpin our ESG rating system. This materiality heat map allows us to identify the sectors with the highest climate transition risks and adjust the weighting of our ESG scoring methodology accordingly to ensure risks are appropriately assessed.

In addition, through our ESG rating methodology, we aim to better anticipate climate responsibility risk. We can assess this both quantitatively and qualitatively. By creating a solid analytical framework around ESG research, we are able to make an independent assessment of companies' climate commitments and their exposure to various climate risks. The qualitative adjustment of the ESG rating takes into account a forward-looking analysis based on a company's strategy, vision and ambitions. This ESG analysis is enriched by several external research sources enabling us to cover companies, sovereign issuers and supranational agencies.

The risk of liability is also incorporated into our tool for tracking climate-related controversies. All companies are monitored through a permanent flow of information from relevant sources (brokers, public data, media, etc.). The more controversial a company is, the greater the reputational risk to our funds. All controversies are ranked from level 1 to 5 and classification takes into account the impact of incidents based on severity and number of occurrences, level of recurrence, responsibility and exceptional character, response and management by the company. A company is penalised if it faces one or more level 3 or higher controversies. If the controversy is extremely serious or has particularly negative consequences, the company could be excluded from our investment universe. In addition to this, the sectors most exposed to ESG controversies and scandals have structurally weaker ESG results in our rating system due to the weight given to controversies in our ESG scoring model.

However, our ESG scoring framework for corporates does not yet address physical risks. We recognise that historically our focus has been primarily on transition risks. We have sourced data providers that specialise in physical risk assessment and provide us with company-level scores. These scores enable us to have an external and homogeneous assessment of the physical risks facing the companies in which we invest. Unfortunately, these scores do not assess the vulnerability of companies to physical risks. They are a measure of the exposure of enterprises to risk areas without taking into account the actions that the enterprise has been able to implement to manage these risks.

The materiality of these risks to the enterprise is also not taken into account, as two enterprises located in the same risk area will have the same valuation, regardless of whether the asset in question is strategic or not for the enterprise. These scores are therefore more useful for our engagement activities and we have thus decided not to include them at this stage in our ESG scoring framework for companies.

We continue to work on internal research projects to assess the sensitivity of business results to climate change. BNP Paribas is very involved in the OS-Climate initiative, in particular within the physical risks working group, whose objective is to develop an open-source methodology for analysing the physical risks faced by companies.

For sovereign debt issuers, we obtain a physical climate risk assessment from Verisk Maplecroft, which considers seasonal and annual changes in temperature and precipitation in addition to extreme events.

## Managing climate-related risks

### Calculation, publication and reduction of the carbon footprint of our portfolios

We started measuring the carbon emissions of some of our equity funds in 2011 and we have steadily expanded the coverage and scope. We are now measuring the carbon emissions of both equity and fixed income eligible portfolios.

In May 2015, we were one of the first signatories of the Montreal Carbon Pledge. By signing it, we committed to progressively measuring and publicly reporting the carbon footprint of our open-ended funds in an informative and explanatory way. In December 2018, we measured and reported the carbon footprint of more than €50 billion of assets under management (AUM) on open-ended fixed income and equity funds. As part of our GSS we committed to reporting the carbon footprint of a wider range of our portfolios and for these portfolios to have a lower carbon footprint than their respective benchmarks.

As part of our net zero target, we have committed to reducing the carbon footprint of our in-scope AUM by 50% by 2030. Additionally, carbon emissions measures have been a heavily weighted factor in our proprietary ESG scoring model since inception. In our ESG Integration Guidelines, we articulate an objective for our portfolios to have a higher ESG score and a lower carbon footprint than their respective benchmarks. This commitment is grounded in the belief that as an investor, to evaluate the environmental impact of our investments and assess the associated climate risk, we need to be able to measure the greenhouse gas emissions (GHGs) embedded in those investments. We also believe that ESG considerations, when combined with traditional financial analysis, can help investors to understand a wider set of risks and opportunities and, in turn, make better-informed investment decisions.

### 2023 metrics

We have substantially reduced the carbon footprint of our portfolios since 2019. While it is difficult to isolate the various factors that led to this reduction, we have implemented a number of measures over the last few years that have impacted our financed emissions.

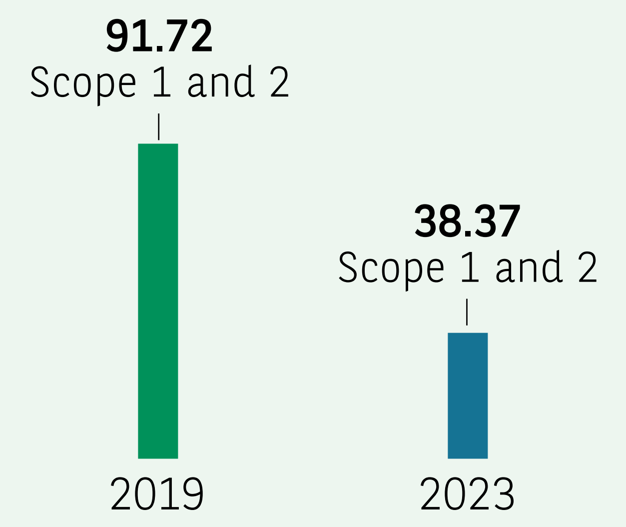
For example, the implementation of our coal policy in 2019 and then of our oil and gas policy in 2020 – and the ongoing tightening of these policies – have greatly reduced our exposure to the most carbon intensive companies.

Our better-than-benchmark rule for certain strategies where we aim to hold portfolios with a lower carbon footprint than their respective benchmarks, incentivises our portfolio managers to further reduce the level of financed emissions in their funds. In addition, we aim to hold portfolios with more positive ESG scores than their respective benchmarks and several indicators related to GHG emissions are currently embedded in our proprietary ESG scoring framework.

With the introduction of the SFDR rules, our definition of Sustainable Investment has made oil and gas ineligible, meaning that they cannot be held in Article 9 funds or in the 'SI' component of Article 8 funds. We also have 213 funds with the French ISR or the Towards Sustainability labels and both of these labels have significantly enhanced their criteria vis-à-vis high carbon industries, which has also helped to reduce our overall exposure to carbon over time. In addition to this, our PAB funds are also following the PAB rules on annual portfolio carbon footprint reduction.

The reduction of our carbon footprint can also be due to the reduction of the carbon footprint of invested companies. Our 2023 carbon footprint data is from September and does not yet reflect the 2023 carbon footprints of the companies we invest in. We use the latest available data to calculate carbon footprints, meaning that we are largely using prior year data. This means that the carbon footprint reduction we have experienced in 2023 might, at this stage and until we have the updated carbon data, reflect a selection effect (e.g., a reduced weighting in high carbon intensive companies) rather than a change in carbon emissions of invested companies themselves. We continue to work with data providers to look for ways to access more timely data but for the time being, we accept that there will be a lag in reported emissions.

**Carbon footprint of our in-scope AUM ($tCO_2e$/m€ EVIC)**



# OUR COMMITMENT TO CLIMATE

## NZ: AAA Framework for Net Zero Alignment

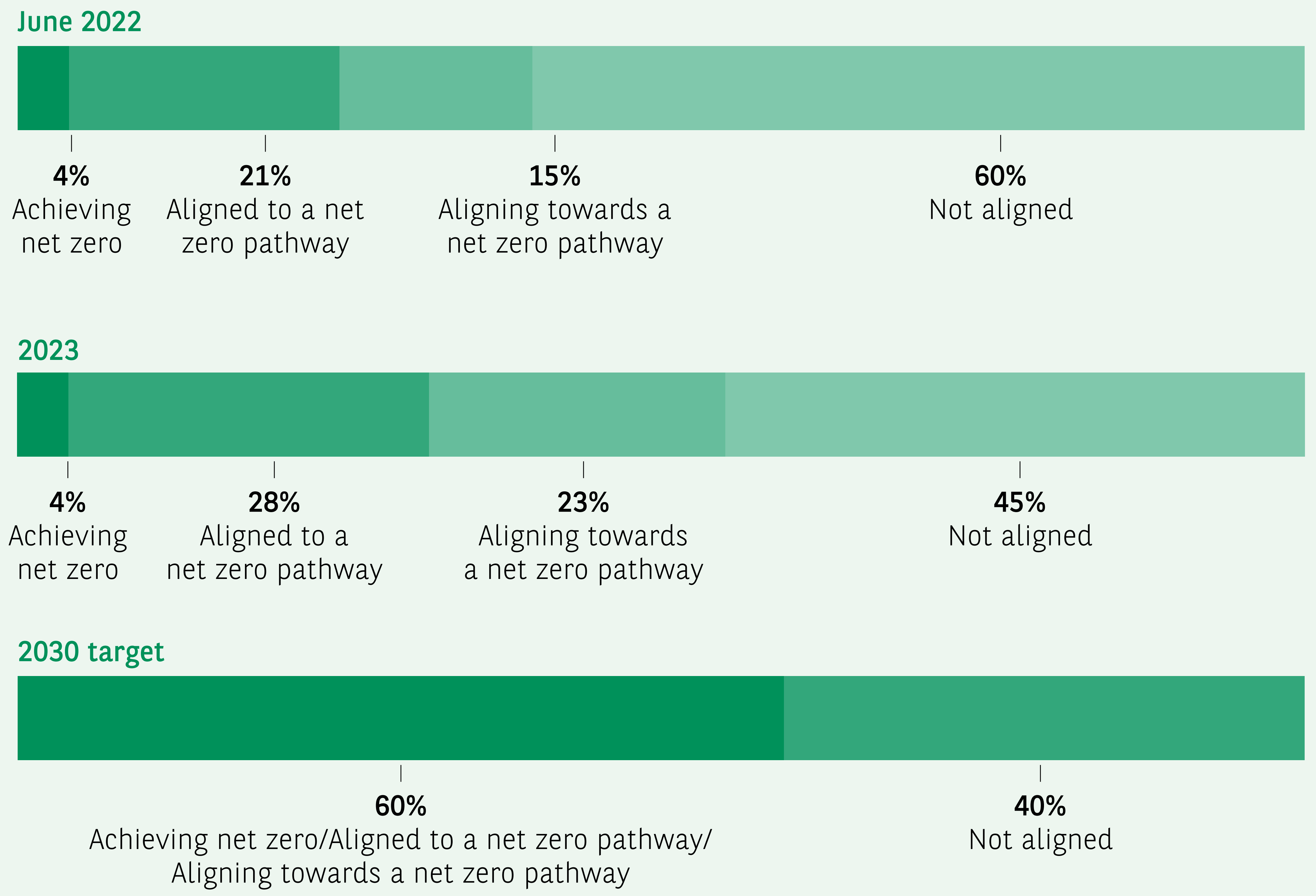
We have developed a proprietary framework to measure alignment with global net zero goals of our investments in companies, largely inspired by the Paris Aligned Investment Initiative Net Zero Investment Framework. This Triple A framework (NZ: AAA) assesses whether companies are Net Zero Achieving, Aligned or Aligning based on a number of data sources, including Transition Pathway Initiative, Science Based Targets initiative (SBTi), Climate Action 100+ and CDP. Most of these sources are publicly available and have objectives related to categorising companies according to their carbon emissions reduction pathways. This framework outlines the progressive alignment of our portfolio investments with our net zero commitments and reinforces our goal to contribute to net zero emissions by 2050. This framework helps us to better understand the carbon reduction targets of the corporates we finance, the credibility of their climate strategies as well as the climate value added by the products and services they offer.

Our assessment is based on an Implied Temperature Rise (ITR) indicator, which translates corporate GHG reduction targets into a projected global temperature change outcome to facilitate this assessment and the comparability between corporate commitments. This indicator is designed to translate greenhouse gas emissions pathways into predicted global temperature figures. Our ITR indicator is an implementation of the CDP and World Wildlife Foundation methodology using CDP target data and the Financial Institutions Temperature Scoring tool developed by the SBTi. In addition to using ITR in our NZ: AAA framework, we also assess the climate value added of the product and services offered by the companies we invest in using EU Taxonomy alignment as well as our SDG framework.

## 2023 metrics

In 2023, the proportion of our holdings in companies not taking any concrete climate action has been substantially reduced, with 45% of our in-scope AUM fitting in this category, down from 60% in 2019. This decrease is a result of the growing number of companies taking climate commitments. As we see more companies announcing carbon reduction targets and as we are already close to our 2030 alignment target, we are in the process of reviewing our NZ: AAA framework in an effort to make it more performance-oriented.

**% of in-scope AUM in net zero alignment**



# OUR COMMITMENT TO CLIMATE

## Responsible Business Conduct policy

**Our Responsible Business Conduct policy contains our sector-specific exclusion approaches and scope of application and is a key tool in managing climate-related risks in our portfolios.**

### We exclude:

**1 Thermal coal mining companies that meet any of the following criteria:**

- are developing or planning to develop thermal coal extraction capacities such as new mines or expansion of existing ones;
- derive more than 10% of their revenues from the mining of thermal coal;
- produce more than 10 million tonnes of thermal coal per year;
- do not have a strategy to exit from thermal coal activities by 2030 in European Union and OECD countries and by 2040 for the rest of the world.

**2 Power generators that meet any of the following criteria:**

- are adding operational coal-fired power generation capacity to their power portfolio;
- have a carbon intensity above 400 $gCO_2/kWh$ (as of 2024, this threshold has been reduced to 381 $gCO_2/kWh$). This exclusion will be further tightened to follow the Paris compliant trajectory for the sector as determined by the International Energy Agency (IEA) Sustainable Development Scenario (SDS). This means power generators' carbon intensity will need to fall to 346 $gCO_2/kWh$ by 2025, otherwise they will be excluded from our investment portfolios;
- still have coal capacity in their generation mix in 2030 in European Union (EU) and OECD countries and by 2040 for the rest of the world.

**3 Oil and gas companies that meet any of the following criteria:**

- companies deriving more than 10% of their activities from unconventional oil and gas or more than 10% of their revenues from unconventional oil and gas;
- companies deriving more than 10% of their exploration and production activities from the Arctic region or with more than 10% of their revenues from activities in the Arctic region;
- companies with oil and gas reserves in the Amazon region;
- trading companies for which unconventional oil and gas resources represent more than 30% of their business as well as companies that own or operate pipelines or LNG export terminals supplied with more than 30% of their volume from unconventional oil and gas.

# OUR COMMITMENT TO CLIMATE

## ESG Integration Guidelines (integration of transition and liability risk into ESG analysis)

As per our ESG Integration Guidelines, for a wide range of strategies, we aim to hold portfolios with more positive ESG characteristics than their respective benchmarks. This includes targeting a lower carbon footprint than their respective invested benchmarks, broadly encouraging investment in companies with higher-quality climate risk profiles.

We implement our ESG Integration Guidelines primarily by providing our investment teams with proprietary ESG scores. Our ESG scoring framework places strong emphasis on climate change risks within the Environmental pillar, including the GHG emissions of all companies. Climate change is one of the 11 themes of this framework, accounting for 11.8% of the ESG score on average across sectors, and up to 25% for the sectors most affected by climate change. The ESG ratings resulting from this analysis therefore also reflect the consideration of transition risk.

It is important to note that, in line with our objective to align our portfolios with net zero and given that the world is facing a serious carbon emissions problem, we have introduced an absolute bias to carbon emissions in our relative ESG rating system, mainly sectoral. As a result, sectors, regions and emitters that emit more carbon and other GHGs will have a structurally lower ESG score than those that emit less.

Our ESG score for sovereign debt issuers also includes a 22% weighting for climate change factors, including 11% for assessing physical climate risk within the country and 11% for taking into account each country's approach to climate change mitigation.

## Consideration of Principal Adverse Impacts (PAIs)

Based on a combination of the different pillars of our sustainability approach, our Article 8 and Article 9 products consider and address or mitigate climate-related PAIs on a qualitative basis. We disclose climate-related PAI values in our entity-level statement and at the fund level in the European ESG Template (EET).

**4%**

of our in-scope AUM is aligned with the EU Taxonomy for sustainable activities

The EU Taxonomy establishes the general framework for determining whether an economic activity qualifies as environmentally sustainable for the purpose of establishing the degree to which an investment is environmentally sustainable. We have developed an approach to calculating alignment with the EU Taxonomy and it is something we track and report on.

FOCUS

# Investing in climate opportunities

**While the transition to a low-carbon economy creates many risks, it also generates significant opportunities, which forward-looking investors may capture with the right investment tool.**

We have a long history of helping our clients invest in the transition, launching our first SRI fund in 2002 and one of our first environmentally-focused funds in 2006. We have since brought to market a range of climate-focused strategies. In 2019, we created a dedicated Environmental Strategies Group, launching our **Energy Transition** equity strategy followed by our **Environmental Absolute Return Thematic (EARTH)** and **Emerging Climate Solutions** equity strategies.

With respect to fixed income, our **Green Bond** strategy has grown €1.4 billion since its debut. In 2021, we launched our **Sustainable Asian Cities** fixed income strategy designed to target opportunities for enhancing urban mobility, incorporating low-carbon elements, improving basic infrastructure to help cities operate and thrive, and improving their resilience to extreme weather events.

We rank among the biggest ESG passive managers in Europe and this reflects our long history in this class, starting with the first low-carbon ETF in 2008. As of 31 December 2023, we manage €15.6 billion in Paris-Aligned Benchmarks and Climate Transition Benchmarks.

In 2023, we created a new private assets business unit to bring together our range of activities in this area and launched the **Climate Infrastructure Debt** strategy. It allows clients to invest in renewable energy, clean mobility and the circular economy, including new sectors such as batteries, hydrogen and carbon capture.

Early in 2024, we brought to market a new equity strategy: the **Global Net Zero Transition** strategy, where we apply our NZ: AAA framework with a just transition lens focusing on engagement in order to source companies within the MSCI ACWI Index. The strategy includes a charity class fund, where we donate part of our management fee to the charity Electriciens sans frontières, which builds small-scale renewable energy projects in communities predominantly located in the Global South.

Our goal is to continue to increase our climate and environmentally themed investment solutions while embedding climate and net zero considerations across our range of investment strategies.

## Partnering with our clients on their net zero journey

We engaged with clients to discuss the challenges and opportunities around net zero, explain our strategy to contribute to this goal, but above all, to better understand their needs around net zero. We also continue to encourage our clients who have not done so to apply our Responsible Business Conduct policy to their existing segregated accounts, mandates and dedicated funds.

We also communicated with our clients about net zero and our net zero strategy:

- We provided our clients with a range of educational tools on net zero.
- We published thought leadership pieces on climate change and net zero topics throughout the year – articles, research papers and videos on our Viewpoint blog. As an example, we published in November 2023 a research paper on Aligning investments with the Paris Agreement – Frameworks for a net zero pathway, exploring various strategies for institutional investors to align their equity portfolios with pathways targeting net zero greenhouse gas emissions by 2050.

We continue to further develop climate and environmentally themed investment solutions for clients with the launch of new products and the acquisition of IWC (see page 44). In addition, our solutions team is working with some of our institutional clients to provide them with tailor-made climate and environmentally themed investment solutions so they can align their existing and new portfolios toward net zero.

**16**
Paris-aligned, climate transition-aligned or fossil free open-end funds

**€15.6bn**
in AUM in Paris-aligned, climate transition-aligned or fossil free open-end funds

**22**
environmental and climate thematic open-end funds

**€22bn**
in AUM (in AUM in environmental and climate thematic funds)

# OUR COMMITMENT TO CLIMATE

## Integrating climate change into our voting, engagement and public policy advocacy

We use our leverage as a large shareholder to vote, and have meaningful engagement with investees, on climate-related issues. This helps us manage climate-related risks by better understanding our investee companies' transition plans and urging them to enhance their approaches where needed.
We also believe that helping to shape legal frameworks, regulations, standards and guidance relating to climate change is integral to reducing systemic risks related to climate change and is aligned with our fiduciary duties to our clients.

## Voting

- We apply climate-related expectations to our voting, as detailed in our voting policy. For example, we oppose management resolutions on the approval of discharge of the board, board reelections or financial statements (depending on the market) at companies that do not properly report on their carbon footprint (Scope 1, 2 and 3, when appropriate) or their climate lobbying activities, nor communicate or constructively engage about their climate strategy. In addition, we expect companies identified as the world's largest corporate GHG emitters to publicly announce their ambition to achieve net zero GHG emissions by 2050 or sooner. This results in a significant opposition vote at general meetings for climate-related considerations. In 2023, we opposed 1,080 resolutions at 200 companies based on our climate-related expectations.
- We support shareholder proposals when they align with our ESG expectations, as detailed in our Governance & Voting Policy. We opposed 55% of Say-On-Climate proposals that were within our scope in 2023, reflecting proposals that did not meet our expectations.

## Engagement

- We co-lead engagement with 10 companies in Europe, the U.S. and Asia through the collaborative initiative Climate Action 100+. We also take part in dialogues led by other investors in CA100+ and lend our name to all engagements undertaken in the name of this initiative, with all companies, in our capacity as a supporter.
- We also co-chair the European Climate Lobbying Working Group of CA100+, sit on the Corporate Programme Advisory Group and participate in the Asia Investor Group on Climate Change (AIGCC) programme of engagement with Asian utilities.
- Engagement related to our RBC Coal Policy: We engage individually with portfolio companies to confirm the emissions intensity of their power generation and evaluate the potential for us to work with companies to enhance their decarbonisation ambitions. We also engage with those companies whose carbon intensities are close to, but still not in line with our policy.
- Engagement on corporate climate lobbying: We have been successful in getting a number of large emitters such as Danone to align their direct and indirect climate lobbying activities (i.e., those conducted by their industry associations) with the temperature goals of the Paris Agreement by filing or co-filing shareholder proposals requesting them to do so.

## Integration of climate risks into our overall risk management governance

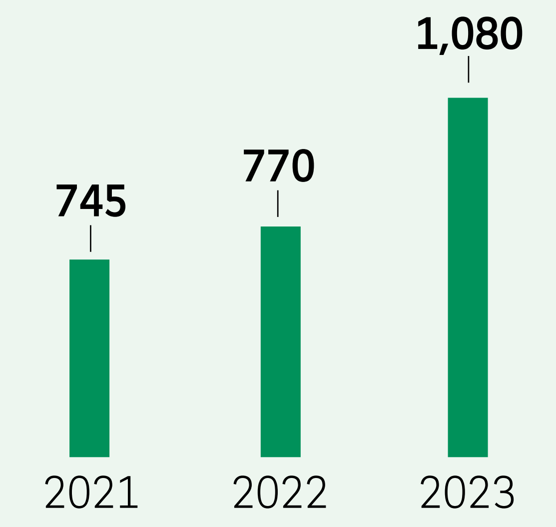
We have a framework for the identification and review of sustainability risks, which includes climate-related risks, in our overall risk framework. We have defined roles and responsibilities for first and second lines of defence in the various departments implicated. An action plan has been defined for each identified risk and the assessment of sustainability risks, as well as the associated control plans, are presented at the internal control committee chaired by our CEO.

We have an independent department that aims to ensure centralised and cross-functional supervision of operational and investment risks, including climate change risks.
The department is involved in three important dimensions:

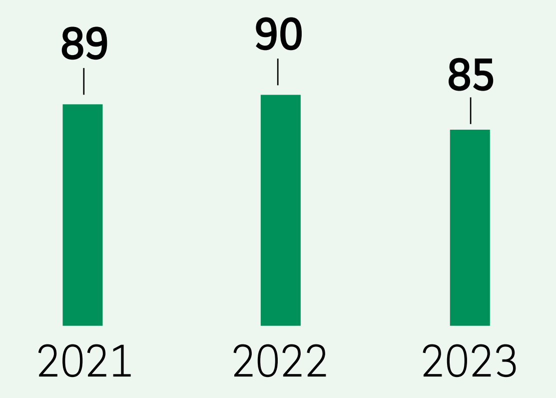
- The independent review of climate-related models, along with the legal department for when there are regulatory implications.
- Monitoring sustainability indicators in portfolios. Funds are tracked automatically, and divergences versus expectations are considered as breaches. Voluntary commitments including carbon constraints are monitored by the CIO's office. For example, for SFDR Articles 8 and 9 funds where better than benchmark performance related to ESG score and carbon footprint is part of a fund's objectives, these constraints and any related divergences are monitored by the investment CIO office through a dedicated dashboard and breaches are reviewed by the Investment Committee.
- Oversight of operational risks related to a number of processes involving sustainability issues including those related to climate (e.g. reporting, data and IT systems).

Our risk management team is involved in sustainability-related governance, including our net zero workstream dedicated to climate change, and works closely with the RISK ESG team at BNP Paribas Group to ensure the sharing of best practices. Within the BNP Paribas Group's RISK Department, RISK ESG manages the integration of ESG risk factors into the BNP Paribas Group's risk management framework and into the activities of the Group's various risk teams.

### Number of management resolutions opposed for climate-related reasons




### % of climate-related shareholder proposals we supported



# VOTING AND ENGAGEMENT

# VOTING AND ENGAGEMENT

**As long-term investors, we use voting, engagement and policy advocacy to influence companies and governments around the world to help shape sustainable and equitable economies. Promoting good ESG standards among all types of issuers and holdings is an essential element of our ownership responsibilities.**

## A future maker

We are committed to being a 'future maker', using our investments and our influence with companies, policymakers and standard setters, to contribute to a successful energy transition, healthy ecosystems, and greater equality in our societies. We use the tools of voting, and engagement with issuers and policymakers, to realise this ambition.

To ensure that our activities are effective, consistent and support our objectives and duties as fiduciaries, they are not only rooted in our GSS but also codified in our Stewardship Policy and Governance and Voting Policy, reviewed annually and revised as needed – and approved by the Stewardship Committee.

**Our conviction:** Voting and engagement are both an obligation and an opportunity.

- We cannot deliver on our commitment to clients without undertaking effective voting, engaging with issuers to improve their performance on sustainability, and wide-ranging policy advocacy.
- Meaningful engagement with issuers enhances our investment processes so that we can manage long-term risk for our clients by promoting strong ESG practices among corporate and government issuers.
- As ESG performance can be material to financial performance, our voting and engagement can reduce risk, unlock value and positively impact the world by encouraging both better corporate practices and transparency.
- We exclude companies, sectors or activities that are in violation of international norms, or that cause unacceptable harm to society and/or the environment. We engage to drive change, but if our engagement is not effective, divestment can be a last resort.
- Appropriate and comprehensive corporate disclosure is fundamental to sound investment decision-making.
- Collaboration with other long-term investors and stakeholders can help to achieve our common environmental and social aims, particularly when engaging with companies and regulatory bodies.
- We have a duty to advocate for policymakers to deliver legislation, regulation and standards that foster sustainable and equitable development, and that address systemic risks and market failures.

| Voting | Engagement | Public policy advocacy |
|---|---|---|
| We exercise our rights and responsibilities by making considered voting decisions in line with our policy. Voting is core to discharging our fiduciary duty. It drives better corporate governance and sustainability practices. | We use informed engagement with equity and bond issuers to improve their performance on governance and sustainability. Engagement in turn informs our votes and influences issuers' eligibility for investment and ESG ratings. It is also designed to counter global systemic risks and market failures. | We actively engage with regulators and policymakers to help shape the markets in which we invest and the rules that guide and govern company behaviour. |

## Voting and engagement to shape issuers' policies and practices

An integral element of our investment process is to vote on behalf of our clients at Annual General Meetings (AGMs) and Extraordinary General Meetings (EGMs) of companies in which we invest.[1] We are committed to consistently exercising our voting policy across portfolios and markets, subject to technical and legal constraints. We coordinate dialogue with portfolio managers, ESG analysts and stewardship analysts so that final voting decisions can feed into the qualitative elements of our ESG ratings.

Our Governance and Voting Policy provides full details of our approach to voting.

Our engagement encompasses our public equity holdings – both actively and passively managed – and extends beyond them. We regularly engage with issuers of various types of bonds, and sovereign issuers and agencies, on material ESG issues, including climate change, which may impact the value of our investments in sovereign bonds or their ability to meet their obligations to investors.

Within our private assets business, we engage investees in relation to a wide range of ESG matters specific to each asset and strategy. These can include: discussing relevant issues with general partners when selecting external funds; setting expectations for management teams on ESG topics when investing in corporates; including ESG clauses in binding deal documentation; voting at board meetings to promote ESG or impact considerations. We also participate in several initiatives on ESG and impact in private assets.

1 - We exercise voting rights for equities in mutual funds, UCITS, Accredited Investment Fiduciary (AIF), foreign investment funds, mandates and for Employee Investment Funds for which voting rights are delegated to BNPP AM.

The above-mentioned securities are for illustrative purposes only; they are not intended as solicitation of the purchase of such securities, and do not constitute any investment advice or recommendation.

## Escalation process

Investor-issuer dialogue is the foundation of good stewardship – it allows trusting relationships to be built, permitting candid solution-oriented discussions about issues that might not otherwise be addressed.

Dialogue, however, is a two-way street and there are times when stronger measures are necessary to encourage a company to come to the table and discuss our concerns or to take the action we have asked for.

### Our approach to stewardship provides for a variety of escalation strategies, including:

- voting against a company's board discharge or elections or financial accounts;
- submitting private questions to companies' top management;
- submitting public questions at general meetings;
- filing or co-filing shareholder proposals at general meetings;
- making public statements;
- rarely, but when deemed appropriate, announcing our voting intentions ahead of time and;
- additional legal strategies.

These decisions are taken on a case-by-case basis, to ensure that our concerns have been properly heard and dealt with. Our shareholder proposal filing strategy is approved annually by the Stewardship Committee, as are decisions about the filing of specific shareholder resolutions.

We also regularly exclude from our actively managed portfolios companies that fail to meet our Responsible Business Conduct standards and Sector-Based Policies.

# Public policy advocacy to shape markets

BNPP AM has a long-standing commitment to policy advocacy to advance our sustainability goals, contribute to a well-functioning financial system and mitigate systemic risks. We believe that helping to shape legal frameworks, regulation, standards and guidance relating to sustainable finance and sustainability issues that have serious implications for the real economy, inter alia climate change, nature loss and inequality, is integral to the fulfilment of our fiduciary duties to our clients.

One of the core tenets of the PRI, to which we are a signatory, is participation ''in the development of policy, regulation, and standard setting (such as promoting and protecting shareholder rights)".

We also operate within the provisions of the Group's Charter for Responsible Representation with Respect to the Public Authorities.

Our approach is set out in our Stewardship Policy 2024.

We contribute to initiatives at the international, regional and national levels on matters relating to sustainable finance, corporate governance and disclosure, as well as on a wide range of sustainability issues. While we sometimes meet agencies and policy makers individually, we favour engagements undertaken in partnership with other investors, through formal or informal networks, wherever possible, so as to be able to put forward a consistent position.

Given the important role played by accounting and other professional bodies, we also aim to shape the standards and guidance they develop and oversee.

### Our approaches include:

- public submissions to legislators, regulators and multilateral institutions, e.g., responding to public consultations;
- participation in the development of policy proposals in public and private forums, such as technical advisory committees and investor associations;
- meetings with policymakers;
- publication of white papers and;
- endorsement of public statements and commitments developed by investor and other stakeholder initiatives.

We present various examples of our public policy advocacy throughout this section to demonstrate how we take a joint approach to trying to shape the policies and practices of corporates and relevant public policy.

### ShareAction: ranking and general findings

**BNPP AM was ranked second out of 77 asset managers around the world by ShareAction in its 2023 Point of No Returns report.**

The scores and ranking are based on the ambition, scope, and transparency of the firms' approaches to responsible investment to determine how far they are safeguarding against key social and environmental risks.

We scored 79% on the Stewardship section and were given an A rating. The average score was 58%.

Note: ShareAction 2023 Point of No Returns report is based on 2022 figures.

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# Voting: exercising our rights and responsibilities

Our approach to voting is governed by a set of principles which underpin our expectations of the companies we invest in and guide how we exercise our ownership duties. Our Governance and Voting Policy sets the rules we apply to proxy voting, including on ESG-related matters. It is updated each year. We vote proxies solely in the best interests of our clients and the ultimate beneficiaries of the funds for which we are responsible.

We seek to take a constructive and positive approach with the boards of companies we invest in, clearly setting out our expectations as a diligent steward of assets. However, we will not hesitate to abstain or oppose management, or to support shareholder proposals. When companies do not meet our expectations, we oppose the following key categories of management resolutions, depending on the market: Board Elections; Discharge of Board and Management or Financial Statements.

To help us implement our policies, we use the services of proxy voting providers ISS, which provides global voting research and a voting platform for all companies, Glass Lewis and Proxinvest, which provide research on selected companies. However, we do not delegate decision-making authority to them and we take each voting decision for every shareholder's meeting, i.e., we do not outsource the final decision.

Our 2023 full proxy voting record is publicly available on our website. The following content is a summary of our voting activity in 2023, including details on our most significant votes and our rationales for votes on environmental and social proposals.

## Key revisions to our voting policy for the 2023 season

Each year, we review our Governance and Voting Policy to adapt it to evolving market practices and the many remaining challenges in the fields of corporate governance, and environmental and social responsibility. Our 2023 Governance and Voting Policy again strengthens and reinforces our expectations in these areas, specifically by:

### Raising the gender diversity thresholds for boards of directors to:

- 35% in mature countries, i.e., for Europe, North America, Australia, New Zealand and South Africa, with exceptions allowed in cases where the proportion of women is between 20-35%;
- 20% threshold in emerging countries, i.e., for all other markets, with exceptions allowed in cases where the proportion of women is between 10-20%.

### Introducing an ethnic diversity expectation for North America, UK and Ireland:

- Voting against incumbent directors who are members of the nomination committee if the board has no apparent racially or ethnically diverse composition (based on ISS' definition[2]) for North America, UK and Ireland.

### Introducing a new board opposition rule where companies have dual-class shares:

- Voting against incumbent nomination and/or governance committee members (or the Board chair in the absence of such committees) at companies with a dual-class share system with differential voting rights (including preference shares with no voting rights system).
- Setting an exception rule for new IPOs with a sunset clause within five years of the IPO.

## Continued consideration of sustainability factors in voting decisions

We also continue to factor into our voting decisions other elements of companies' sustainability performance. We retained the expectations we set last year for the world's largest GHG emitters, given our commitment to the Net Zero Asset Managers (NZAM) initiative. We expected these companies to publicly announce their ambition to achieve net zero GHG emissions by 2050 or sooner, underpinned by credible decarbonisation strategies and intermediary targets, in line with global efforts to limit warming to 1.5°C.

In relation to biodiversity, we expected companies to assess and report on their key impacts and dependencies on nature, beginning with companies in high-impact sectors and with a priority focus on deforestation and water. We focused on companies in sectors designated by CDP as high impact and which failed to disclose through the CDP Water and Forest questionnaires. Finally, while we engage with some companies with low scores on our ESG rating system, especially those in which we have active positions, we also have the option to sanction certain resolutions as an escalation measure especially if these companies do not improve their practices. We also sanction companies whose policies and practices do not align with our RBC policy.

**Michael Herskovich**
Global Head of Stewardship

*"We advocate hybrid AGMs, with the same rights for those who vote remotely and in person. As in previous years, we continue to advocate for high governance standards and we opposed 36% of the management resolutions we voted on because we did not believe they were in the best interests of our clients."*

2 - Taking into account relevant technical and legal considerations.

# 2023 voting scope

Each year, we monitor the total votable shares in the portfolios we manage and assess the percentage of votes exercised during the year in alignment with our Governance and Voting Policy. We use two principles to select the shares for which we exercise voting rights.

### We aim to concentrate our efforts on:

- widely held positions;
- companies where our collective investment schemes hold a significant portion of the issuer's capital.

### Specifically, the total number of meetings we vote at is defined where our aggregated positions meet at least one of the three following conditions:

- **represent 90%** of accrued total stock positions;
- **make up 0.1%** or more of the company's market capitalisation; or
- ad hoc demand.

The total value of the assets under management that fell within our voting scope (which is beyond Undertakings for Collective Investments in Transferable Securities (UCITS) with mandates) was €68 billion. This voting scope represents nearly 52% of meetings[3] held by companies held in all our UCITS with mandates, which represented 79% of ballots voted[4].

Over the past three years, we have maintained a high and rising opposition rate. This is due to the high expectations we have of companies as described above and because we make our own voting decisions. This year the percentage of votes against management was 36%, three percentage points higher than in the prior two years. We voted at 1,931 general meetings in 2023, primarily in Europe, reflecting the split of our assets under management.

We opposed

**36%**

of management proposals in 2023, compared to

**33%**

in the prior two years.

3 - The total possible voting scope included 3,677 meetings in 2023.
4 - We voted 18,156 ballots out of 22,927 votable ballots.

### Total number and percentage of votes by region for the last 3 years

| Year | Meetings voted | Europe | North America | APAC | Other* |
|---|---|---|---|---|---|
| **2023** | 1,931 | 898 | 540 | 414 | 79 |
| | | 47% | 28% | 21% | 4% |
| **2022** | 1,976 | 908 | 526 | 432 | 110 |
| | | 46% | 27% | 22% | 6% |
| **2021** | 2,098 | 974 | 554 | 467 | 103 |
| | | 46% | 26% | 22% | 5% |

* Other includes markets such as Latin America and Africa.

### Votes for and against, including abstentions, in 2023


### The main focus of our opposition, excluding shareholder proposals (the analysis for which is presented from pages 62 to 65), continued to concentrate on three topics:

- executive compensation;
- financial operations; and
- board elections.

Similar detail on all other types of votes is available in our 2023 Voting Report. We outline examples in a later section that illustrate how our engagement with several companies in the run-up to their AGMs informed our voting decisions. In some cases, we abstained or voted against an item on the ballot to indicate an escalation in our concern.

# Our votes on management and shareholder proposals

| | Management proposals | | | | | Shareholder proposals |
|---|---|---|---|---|---|---|
| | Total | Board elections | Executive pay | Financial operations | Routine business and other[5] | |
| Total voted | **25,988** | 12,621 | 3,924 | 2,431 | 6,139 | 873 |
| Voted for | **16,509** | 7,343 | 1,943 | 1,459 | 5,187 | 577 |
| Voted against | **8,476** | 4,878 | 1,695 | 842 | 863 | 198 |
| Abstained | **1,003** | 400 | 286 | 130 | 89 | 98 |
| 2023 Total Opposition Rate (abstained or against) | **36%** | 42% | 50% | 40% | 16% | 34% |
| 2022 Total Opposition Rate (abstained or against) | **33%** | 36% | 61% | 38% | 13% | 28% |
| 2021 Total Opposition Rate (abstained or against) | **33%** | 37% | 60% | 39% | 12% | 30% |

5 - Approval of accounts, appointment and remuneration of auditors, mergers and acquisitions, anti-takeover measures, etc.

## Executive compensation (50% opposition vs. 61% in 2022)

The reasons for our opposition to executive compensation plans (e.g., stock-options, restricted stock plans, severance payments and 'say-on-pay' proposals) typically fall into the following general categories:

- **Poor transparency on aspects of the compensation policy** (volume, weight, nature of the performance criteria, targets, etc.);
- **Compensation practices** that were not in line with stakeholders' interests, with excessive or disproportionate amounts relative to the company's performance;
- **Absent or weak ESG performance criteria**, not clearly linked to the company's sustainability strategy;
- **A 'pay for failure' approach** based on insufficiently challenging performance criteria; and/or
- **Compensation** not oriented towards rewarding good long-term performance.

## Financial operations (40% opposition vs. 38% in 2022)

We oppose management proposals related to financial operations, which generally request a share capital increase, for the following reasons:

- **The volume** was considered too significant (i.e., where authorisations exceeded 50% of the share capital); or
- **A share capital authorisation** was proposed without pre-emptive rights and without a specific objective (more than 5% of share capital or 20% with a specific purpose), which leads to excessive dilution for current shareholders.

We also voted systematically against all anti-takeover devices.

## Board elections (42% opposition vs. 36% in 2022)

Our votes in opposition to individual directors generally indicate our belief that there is weak corporate governance and an issue related to the balance of power. Most votes against directors fall into the following categories:

- **A non-independent director** with insufficient overall board independence;
- **Non-compliance** with our expectations on gender diversity;
- **Directors** with poor attendance or term of mandate exceeding four years.

On pages 72-73, we provide several examples of our engagement with respect to voting; commentary on our engagement and related votes on gender diversity on boards can be found on page 91 in the Equality section.

CASE STUDY

# Filing shareholder proposals (1/2)

In 2023, we continued our leadership on the topic of shareholder proposals. We submitted ten shareholder proposals: eight proposals in Italy relating to governance and two proposals in the U.S. on environmental topics.

## Italy: Proposals with Assogestioni via the Voto di Lista system

**CONTEXT:** The slate voting mechanism is used in Italy to elect directors and statutory auditors of listed Italian companies, selected and proposed by shareholders, including institutional investors. Assogestioni proposed for most Italian companies, and typically for three seats, a list of independent directors. Another list is usually proposed by the leading shareholders. Most of these votes happen every three years and Assogestioni uses a head-hunter and independent selection process to choose candidates.

**ACTIVITY:** We filed shareholder proposals in support of the Assogestioni list at eight companies: Autogrill; Brunellocucinelli; Finecobank; Terna; Poste Italiane; Eni Spa; Enel Spa and Mediobanca.

**OUTCOME:** At all companies, directors were elected from the Assogestioni list, which allowed us to reinforce good governance and board independence at those companies.

## U.S.: Environmental proposals

Although we have celebrated an increasing number of majority votes on shareholder proposals in the U.S. that raise sustainability issues, majority votes are rare. The purpose of submitting a proposal is not to win the vote, but to effect a change in corporate practice. Negotiated withdrawals of shareholder proposals can be more meaningful than strong vote results because they are based on dialogue and an effort to reach agreement that is acceptable to both sides. Sometimes it can take years of proposal resubmissions before a company is willing to come to the table and negotiate. We co-filed at two companies' AGMs this year.

## UPS: Paris-aligned Climate Lobbying

**CONTEXT:** We are working to encourage companies to align their direct and indirect climate lobbying activities (i.e., those conducted by their industry associations) with the temperature goals of the Paris Agreement. Specifically, we ask companies to produce annual reports on these efforts, consistent with the Global Standard on Responsible Corporate Climate Lobbying, which we helped launch.

**ACTIVITY:** In 2022, we co-filed a shareholder proposal at the AGM of United Parcel Service (UPS) with Mercy Investment Services, requesting that the company publish its first climate lobbying report.

This advisory resolution received a 33% vote. As discussions with the company did not appear to be making progress during the remainder of the year, we resubmitted the proposal for the 2023 proxy season. We had further discussions with the company in early January; the tone of the conversation was far more constructive.

**OUTCOME:** In late January, we reached agreement with UPS to publish its first climate lobbying report, no later than the second quarter of 2024. In exchange, we withdrew the shareholder proposal and, due to the timing, agreed not to resubmit the proposal for next year.

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CASE STUDY

# Filing shareholder proposals (2/2)

## Archer Daniels Midland (ADM): Eliminating native vegetation conversion from global supply chains

**CONTEXT:** Non-forest biomes, such as the Brazilian Cerrado, are critical ecosystems that harbour substantial biodiversity as well as providing key ecosystem services, including water yield and carbon sequestration. In recent years, the Cerrado, which receives less legal protection than the Amazon, has seen substantial conversion for agriculture. ADM is a systemically important commodity trader and, in our view, lagged its peers in its approach to native vegetation conversion (NVC).

**OBJECTIVE:** Our goal is to convince ADM to expand its deforestation commitment to include a time-bound commitment to eliminate NVC from its global supply chains. Our request is consistent with a joint message conveyed at COP27 by the United Kingdom and United States, highlighting the critical importance of NVC commitments.

**ACTIVITY:** In the fourth quarter of 2022, we submitted a shareholder proposal to the company, seeking an independently verified commitment to eliminate NVC from ADM's supply chains by 2025. We ultimately withdrew that proposal in exchange for an agreement by ADM to publish - with the assistance of one or more credible independent third parties - a report assessing the feasibility of amending ADM's no deforestation commitment for its highest risk South American supply chains (corn and soy) to be NVC-free by 2025. In addition, the company agreed to adopt a time-bound commitment no later than six months after publication of the report, based on the results of the feasibility assessment. ADM also agreed to consult with its investors during this process.

During the fourth quarter, ADM updated its Policy to Protect Forests, Biodiversity and Communities to commit to eliminating NVC or the repurposing of wild land for crops such as soy and corn, from its supply chains for 'high risk areas' by 2025 for direct suppliers and by 2027 for indirect suppliers. The policy defines the Brazilian Amazon, Cerrado and Pantanal biomes as well as the Paraguayan and Argentinian Chaco as 'high-risk' areas for native vegetation conversion. The policy establishes a 2025 cut-off date for NVC in these areas for all suppliers, meaning that land conversion beyond 2025 will not be permitted.

The 2027 date for indirect suppliers provides the company with the additional time they believe is needed to confirm compliance with their policy.

We met with ADM executives to discuss their feasibility study and to receive further details on these new commitments. Although we would strongly prefer to see a 2025 compliance or 'target' date for ADM's indirect suppliers, we do appreciate the rigour with which the company plans to pursue verification that indirect suppliers are conversion-free and the fact that these new commitments have been made ahead of schedule. In addition, when companies set cut-off dates in the future, there is a risk that they may be incentivising further conversion up to that deadline. We stressed to the company the critical importance of taking all available steps to prevent increased conversion until the 2025 cut-off date, as well as working to encourage rehabilitation and restoration of degraded land. Nevertheless, we believe these new commitments represent important progress. We look forward to the publication of ADM's feasibility report, which paved the way for these important commitments.

**OUTCOME:** ADM adopted new commitments in response to our shareholder proposal and will soon be publishing the feasibility study that led to the adoption of these commitments. Although we sought a commitment to eliminate NVC from ADM's supply chains by 2025, and ADM will not be able to ensure that its indirect suppliers are compliant until 2027, we are pleased with ADM's responsiveness and hope these new commitments will have systemic impact on key biomes throughout Latin America.

# Our record of voting on environmental and social topics

**Where companies do not meet our expectations in relation to various environmental and social matters, as set out in our voting policy, we oppose management resolutions on the approval of financial statements, discharge of the board, or (re-)election of directors (depending on the market).**

In 2023, we opposed 1,521 resolutions at 271 companies for these reasons (71% related to our climate-related expectations, 17% related to our RBC policy, 6% related to our biodiversity-related expectations and 6% linked to low ESG scores) – a substantial increase compared to 2022 (1,391 resolutions at 248 companies).

**Opposing key resolutions linked to environmental and social expectations**

| ESG topic | No. of resolutions | % of total | No. of company meetings | % of company meetings |
|---|---|---|---|---|
| Responsible Business Conduct policy | 264 | 17% | 32 | 12% |
| Climate-related expectations | 1,080 | 71% | 200 | 74% |
| Biodiversity-related expectations | 91 | 6% | 27 | 10% |
| Low ESG score | 86 | 6% | 12 | 4% |
| **Total** | **1,521** | | **271** | |

Percentage figures may not total 100% due to rounding errors

In 2023, we opposed
1,521
resolutions at
271
companies based on our environmental and social expectations

Our principle is to vote in favour of shareholder proposals when they are in line with the long-term interests of the company.

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CASE STUDIES

## Engagement related to voting on environmental and social issues

# Poor health and safety practices and related governance at Norfolk Southern

**CONTEXT:** On 3 February 2023, a Norfolk Southern train carrying hazardous materials derailed in Ohio, causing substantial harm to the local community and environment. The Environmental Protection Agency and Department of Justice filed a civil complaint against the company, alleging a violation of the Clean Water Act.

Local community members and business owners, as well as the state of Ohio, also filed lawsuits. According to media coverage, the company's accident rate jumped 80% between 2013 and 2022, with 27% more accidents, significantly worse than the industry average. Further, the company has been accused of cutting workers, lengthening trains and lobbying against safety measures to drive shareholder value. The National Transportation Safety Board is investigating the company's safety culture. Post-accident, the CEO pledged US$6.5 million to help those affected by the chemical spill but refused to back away from the company's plan to spend US$7.5 billion on share buybacks.

**VOTE:** We chose to vote against all members of the Board to signal our serious concern that safety issues do not appear to be receiving sufficient attention. The intention to proceed with the buyback plan during this high-profile disaster – an accident that may have been prevented had the appropriate safety measures been taken – underscored the need to send a strong signal to a board that does not appear to be putting our best interests first. However, investors overwhelmingly re-elected the Norfolk Southern board.

ESCALATION

# Weakened deforestation commitments at Procter & Gamble (P&G)

**CONTEXT:** In May 2023, P&G updated its Forest Commodities Policy, removing a commitment to end forest 'degradation' – practices that significantly impair a forest's ability to continue to produce various ecosystem services, without converting the forest to non-forest uses (deforestation). The commitment on degradation had been in P&G's policy since 2021, following a majority vote on a shareholder proposal.

**ACTIVITY:** We submitted questions during P&G's ESG conference call about the removal of 'degradation' from the company policy and the implications for its supply chain. The company responded that degradation was removed to avoid confusion over multiple definitions of 'degradation', but nothing had changed in practice. This was the only time during the briefing that this issue was mentioned and may be the only public explanation – or acknowledgment - the company has provided for the change. Following the ESG briefing, we had two calls with P&G executives to discuss the change in policy and get a better understanding of P&G's oversight of the harvesting of pulp from the Canadian Boreal for its premium tissue products, including Charmin toilet paper. Prior to our first call, we submitted a lengthy set of questions, to which P&G provided a partial written response. Our discussion covered certification schemes, Canadian forestry policy, the impact of the EU Deforestation Regulation, woodland caribou protection, the protection of "intact forest landscapes" (IFLs), and P&G's efforts to replace virgin fibre with more sustainable alternatives.

**VOTE:** Members of the P&G founding family initiated a 'Vote No' campaign, asking investors to vote against the CEO and certain directors at the company's AGM, due to the change in policy and concerns that the company was not taking sufficient action to address deforestation and forest degradation. In response, we requested a call with the targeted directors, but our request was denied. As we remained unconvinced that P&G is effectively managing this critical risk, we chose to vote against all incumbent directors.

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HIGHLIGHT

# Focus on 'Say-on-Climate' proposals

Following the emergence of 'Say-on-Climate' management proposals in 2020, we developed clear assessment criteria to guide our voting decisions, set out in our Governance and Voting Policy (section 4.5). These are proposals submitted by companies' management to AGMs to give shareholders the opportunity to vote on the company's climate policy and transition plans.

We assess each proposal qualitatively to determine the company's level of ambition, the alignment of the climate strategy with the objective of achieving net zero GHG emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5°C, its current emissions trajectory and its performance against comparable peers.

Having almost doubled between 2021 and 2022, the number of climate-related management proposals fell in 2023 across all markets.

Only 22 'Say-on-Climate' proposals fell within our voting scope in 2023 versus 40 the previous year. We believe this decline is likely due to several factors, including the irregular frequency of 'Say-on-Climate' votes (a majority of companies still offer one-off votes) underpinned by the lack of common standards and regulation.

In addition to remaining largely concentrated in Europe (82%), half of these votes were at companies that had already submitted a 'Say-on-Climate' proposal in previous years. We paid particular attention to the way we voted on those, aiming to retain our high expectations and to keep pushing for more ambitious plans. Overall, the climate plans we voted on in 2023 looked better than those we voted on in previous years, although improvements are still needed. Concomitantly, our opposition rate decreased from 79% in 2022 to 55% in 2023. Our abstention rate increased in relation to companies transitioning towards – but not already achieving – more comprehensive plans. As an example, we abstained in some cases where, despite positive features, companies did not align their GHG emissions reduction targets with a 1.5°C scenario.

The level of support gained by companies at their AGMs ranged from just over 53% at Credit Suisse Group AG to 99% at EDP -Energias de Portugal SA.

**Paula Meissirel**
*Senior Stewardship Analyst*

*"We believe institutional investors should adopt a rigorous and critical approach when voting on Say-on-Climate proposals but also consider climate considerations when voting on other key items. Our objective is to combine these with an active corporate engagement strategy on net zero transition plans."*

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# ENGAGEMENT

**Our long-term investment horizon places a company's corporate governance arrangements and the quality of its senior management teams at the heart of our investment decisions, alongside their sustainability performance. Sound governance and effective management of sustainability impacts, risks and opportunities are critical to companies' long-term success and financial performance.**

They are therefore a centrepiece in our engagements during and outside the voting season. Engagement is undertaken for the benefit of clients and their beneficiaries, on behalf of our equity and debt holdings, with companies and with agency, sovereign and sub-sovereign issuers. This supports the implementation of our RBC policies, informs our ESG research ratings and enhances our investment decision-making.

## Engagement with companies primarily takes three forms, although there can be overlap:

1. **Discussions on governance matters in the run-up to annual meetings and votes,** which inform our annual voting decisions. These discussions address how boards are composed and function, and ensure that the appropriate incentives are provided to management within remuneration plans to deliver companies' strategic objectives, including sustainability objectives.

2. **Dialogue over one or more years to improve companies' management of sustainability risks**, opportunities, dependencies and impacts, particularly in relation to the 3Es (Energy transition, healthy Ecosystems and Equality).

3. **Engagement linked to ESG performance.** This can be triggered by new information that indicates a company might be in breach of one of our RBC polices, stimulated by regular revisions to our ESG ratings or in relation to a new bond issuance. We also engage with companies in relation to their issuance of green, social or sustainability (GSS) bonds, as well as agencies, states and regional issuers of sovereign debt. The purpose of this engagement is to provide feedback on the structure of their bonds, evaluate the bonds' linkages to the issuers' environmental and social policies and to encourage clear annual reporting.

Given our global presence and the wide geographic scope of our clients' holdings, we endeavour to engage consistently across all regions on key ESG issues and in line with the 3Es. Our approach varies by region only to the extent that we adapt it to the prevailing regulations, the policy environment, norms and cultural sensitivities.

We undertake our engagement individually, i.e., on a one-to-one basis with companies, as well as collaboratively, i.e., with other institutional investors with aligned goals. See pages 31-33 for a list of collaborative initiatives we belonged to during 2023.

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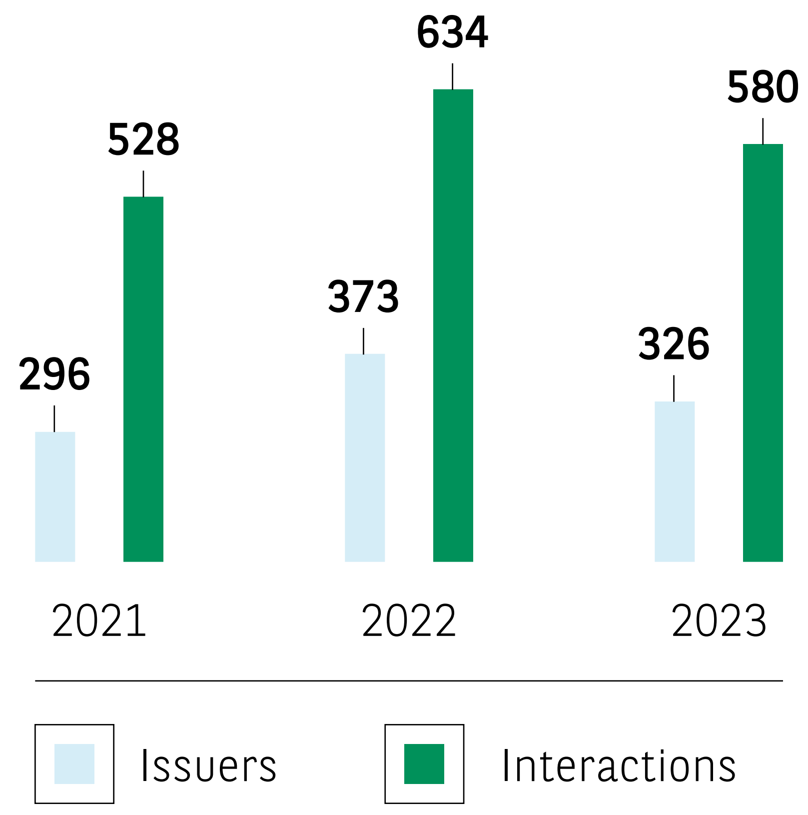
# Our engagement in figures

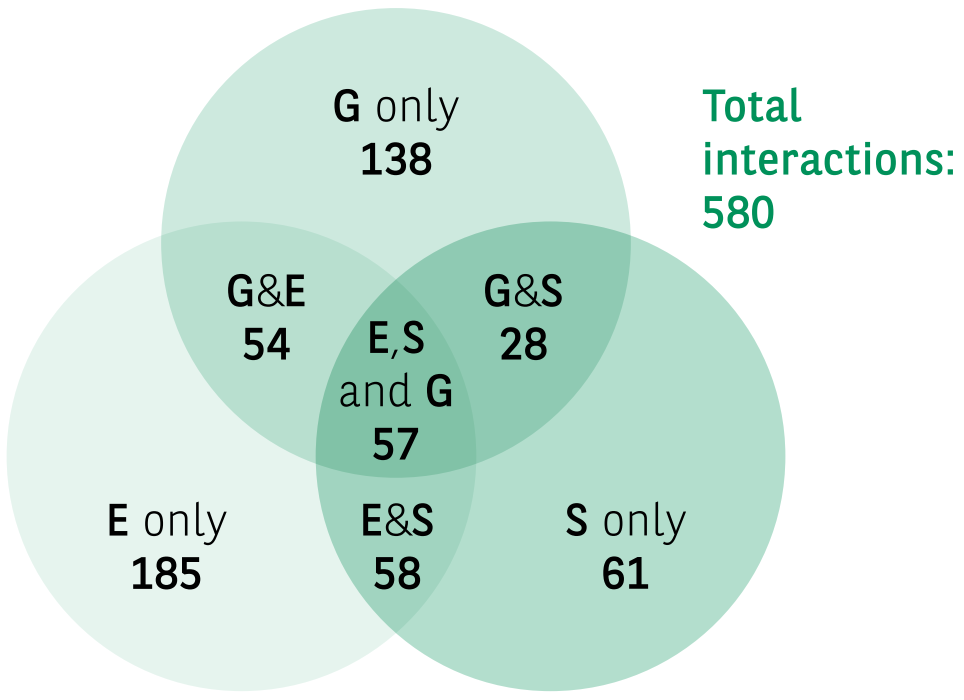
**In 2023, [we engaged with 326 issuers through 580 interactions](). We engaged with 76% by sending letters or having discussions with the issuers individually and for the remaining 24% we engaged with structures through collaborative initiatives or on an ad hoc basis with other investors.**

**We also signed more than 2,000 letters** sent to companies through collaborative organisations we are a signatory to or supporter of (i.e., ARE, Business Benchmark on Farm Animal Welfare (BBFAW), CDP's Non-Disclosure Campaign, IIHC, FAIRR, NA100 and NZEI).

**Total number of issuers we engaged with directly and number of interactions**




**In most of our engagements we address multiple ESG topics rather than just one. Total interactions covering each topic are as follows:**




E > Environmental - S > Social - G > Governance

**Engagement with issuers, by region**

| | All regions | Europe | North America | APAC | Other |
|---|---|---|---|---|---|
| **Number** | 326 | 175 | 79 | 52 | 20 |
| **%** | 100% | 54% | 24% | 16% | 6% |

The majority of our engagement took place in Europe, followed by North America, APAC and other.

**A breakdown of our interactions with issuers. Sometimes we address multiple topics or themes, and the engagement can take place for various reasons (e.g. addressing an issue related to an RBC policy, a low ESG rating, etc.).**

| Interactions | |
|---|---|
| 3Es / theme-specific | 274 |
| Corporate governance-specific | 169 |
| Multiple ESG topics* | 57 |
| Bond issuances | 40 |
| RBC policies | 19 |
| Low ESG ratings | 21 |
| **TOTAL** | **580** |

* This category covers engagement that is not exclusive to one topic or theme, i.e., corporate governance, the 3Es, ESG performance.

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# 1 Engagement to improve governance and inform our votes

**In this section, we set out selected examples of our engagement to give a flavour of our overall activities.**

**During proxy season, we ask selected companies to engage with us or respond to their requests for dialogue.**

We generally concentrate on our largest holdings. The goal of such engagements is to:

- communicate our voting policy to promote good corporate governance and to prepare for the next general meeting;
- obtain additional information on individual resolutions; and
- express our concerns about specific resolutions that do not meet the expectations set out in our voting policy.

Beyond the proxy season, we also have discussions with companies on topics such as strategy, long-term performance, risk management, ESG issues or other concerns.

**During the 2023 proxy season, we had 169 interactions with 91 companies related only to voting, compared to 210 interactions with 106 companies in 2022. Of these engagements, 31 were successful (34%).**

We consider a voting-related engagement to be successful if the company withdraws the proposal we are opposing, or if we change our vote in favour of the proposal after a modification of the resolution from the issuer, or where we obtain additional information. However, a potential modification of our voting decision is not the only criterion for success: some companies modify their practices the following year and are not necessarily counted in the successful engagement statistics.

The examples below focus on topics other than gender diversity on boards; we were again proactive in 2023 on this topic, engaging with 38 companies in all regions ahead of their AGMs. This engagement informed many of our votes and is described in a later section (see page 91) in the context of our engagement on our third E, Equality.

CASE STUDIES

## European companies split CEO and Chair roles

**CONTEXT:** We have long sought a split in the role of CEO and Chair as we believe it is in shareholders' best interests. One of the board's most critical functions is to oversee management, including the CEO. When the board is chaired by the CEO, we believe this critical role can be severely impaired.

**ACTIVITY:** We have raised many times in recent years with Air Liquide, Schneider Electric and Alstom our view that they should split the Chair / CEO role, including during 2023 dialogues.

**OUTCOME:** We were pleased that all three companies split these roles in 2023. This move brings these companies into line with good governance practice and our position and request. We will continue to engage with these companies in order to ensure they retain this separation of roles over the long term, especially for companies where the former CEO becomes Chair.

### Stellantis improves remuneration package structure

**CONTEXT:** We believe that executive compensation plans should be designed to deliver strong long-term performance, discourage irresponsible risk-taking, strengthen employee loyalty, take into consideration their impact on inequality and foster inclusive growth. Since we did not believe that the Say-on-Pay proposals put forward by Stellantis NV management at the 2022 AGM reflected these principles, we voted against them, as did many other shareholders. The proposal was rejected.

**ACTIVITY:** We continued to engage with the company after the 2022 AGM and into 2023 to improve its compensation policy. We had three meetings dedicated to remuneration issues in the run-up to the 2023 AGM with Investor Relations, Corporate Counsel, and a member of the Executive Committee.

**OUTCOME:** We achieved some but not all of our objectives. In line with our requests, the revised remuneration policy put to the 2023 AGM removed the time-based long-term plan and provided for equity awards to be fully performance-based. The 2023 grant no longer allows below-median total shareholder return vesting. The company also provided more transparency ex-ante and

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# VOTING AND ENGAGEMENT

ex-post about the performance criteria and the exceptional bonus. As the new remuneration policy was better than the previous one, we voted for it.

However, the company did not change the exceptional awards granted and distributed time-based long-term plan awards in 2022. We therefore did not vote in support of the two items relating to the remuneration reports.

By improving its remuneration policy, the Board should have better incentivised the executives to deliver both good sustainability outcomes and financial results. We will continue to engage with Stellantis on other aspects of its remuneration practices that do not align with our expectations.

## TotalEnergies SA removes differential voting rights

**CONTEXT:** A key tenet of good governance is respect for the 'one share, one vote' principle. This ensures equal treatment of all shareholders by aligning control via voting rights with economic interest and, therefore, investment risk. We have long enshrined the expectation of 'one share, one vote' in our voting policy and engage with companies where this is not the case.

**ACTIVITY:** The objective of this engagement was to convince the company to remove the differential voting rights structure in its bylaws. (The company allowed tenure voting rights, which in practice were only applicable to a limited number of investors that have registered shares and not to institutional investors.) Members of the Stewardship and ESG research teams have engaged with TotalEnergies on corporate governance issues for more than 10 years. We regularly raised our concerns about the lack of a 'one share, one vote' structure (among other governance and climate topics).

**OUTCOME:** We strongly welcomed the move by TotalEnergies' management at the 2023 AGM to remove the differential voting rights by amending the bylaws. We voted in favour of the proposed amendment as we consider it positive to shareholders' interest. The amendment was approved by the AGM.

## Securing good end-of-tenure CEO remuneration at Société Générale SA

**CONTEXT:** A key item on the agenda of the 2023 AGM was the announcement of the CEO transition as of May 2023, with the nomination of Mr. Kruppa to replace Mr. Oudéa. Having been CEO of the bank since 2008 and having duly announced his departure during the 2022 AGM, Mr. Oudéa was considered a 'good leaver'.

**ACTIVITY:** We held a meeting with the Chair of the Board of Directors in January 2023 to discuss various corporate governance matters. A follow-up meeting was held in February to discuss the remuneration terms and highlight our concerns with regards to Mr. Oudéa's proposed termination package, specifically that his variable remuneration for the time spent as CEO should be pro-rated. We also made some proposals to strengthen the structure of the bonus and the weighting and nature of the ESG metrics.

**OUTCOME:** Following our exchanges, the Chair issued a letter in May stating that the company had considered our views and would pro-rate the CEO's long-term incentive plans for 2019, 2020 and 2021 according to the time spent in the position. It also stated that Mr. Oudéa would not be awarded any long-term incentives for 2022 and 2023. In addition, the company decided to change the structure of the bonus to increase the portion tied to financial criteria (from 60% to 65%) and increase the share of ESG criteria in the LTIP (from 20% to 33%), replacing the criterion on ESG ratings performance with a more operational performance target on the climate alignment of lending portfolios, as we had suggested. These decisions allowed us to support the Remuneration Policy – which was passed with 78.7% shareholder support.

## Improving ESG metrics in remuneration packages at Danone SA

**CONTEXT:** In order to achieve strategic commitments on sustainability issues, it is critical that companies embed appropriate metrics within their remuneration policies to incentivise and reward their delivery.

**ACTIVITY:** We engaged with Danone SA ahead of its AGM to discuss certain items on the agenda. We had particular concerns relating to the ESG criteria proposed for the long-term incentive plan. The company proposed to continue to use only its scores on the CDP Climate Change, Water and Forests programmes. We reiterated our view, expressed many times previously, that this approach does not properly relate to, or capture, the CSR objectives and strategy of the company, or its priorities. Moreover, as Danone has long been given a high ranking by CDP, these criteria were not challenging. We articulated our view that the company should replace the CDP ratings with internally set objectives that are more closely linked to its sustainability goals.

**OUTCOME:** The company decided to amend its remuneration policy and long-term plan criteria. It agreed to replace the CDP criteria with three indicators linked to health (with a reduction target for sugar in products intended for children), climate (reduction of GHG emissions across its entire value chain, i.e., Scope 1, 2 and 3) and social (employee engagement level vs. an external benchmark). We strongly welcome this positive change, in line with our request.

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# Public policy engagement

## EU Listing Act: Facilitation of multiple-vote shares

**The European Commission (EC) published the Listing Act Directive in December 2022 and solicited feedback until March 2023. It aims to simplify the listing requirements, including those post-listing, in order to make public capital markets more attractive for EU companies and to facilitate access to capital for SMEs. One of the goals is to allow SME listings to use multiple vote share structures.**

We responded through three trade associations (ICGN, AFG and Eumedion) as well as contributing to the response of our parent company BNP Paribas. We set out our view that we consider the optimal share structure for all companies wishing to benefit from access to public capital to be one vote for each share within the same class. We noted that we do not support the proposed optional safeguards at Member States' discretion, such as the transfer-based sunset clause, the time-based sunset clause or the event-based sunset clause, as they could introduce further distortion between jurisdictions. We believe the most important principle and safeguard that all Member States should be required to introduce is one that limits the benefit of multiple voting shares for a five-year period across European jurisdictions (a so-called uniform sunset clause). Further, we do not support the proposed provision that allows Member States that already have regimes on multiple-vote shares not to amend their rules. There is no justification for distortion between jurisdictions and differing shareholder protection among Member States.

CASE STUDY

# Shareholder Rights Directives

**OBJECTIVE:** The European Commission published a survey in relation to a study it was conducting to assess the implementation and application of certain parts of the Shareholder Rights Directives (SRDs). These Directives lay down a common regulatory framework on minimum standards for exercising shareholder rights at EU-listed companies. The study was entrusted to a group of consulting firms and aimed to determine whether the SRDs are fit for purpose and to make recommendations for future improvements. The survey closed in mid-December.

**ACTIVITY:** We responded through various trade associations, AFG and EFAMA. Their submissions noted that there remain exogenous, regulatory, and technical barriers, particularly in Europe, which limit access to voting, and which do not seem to be in line with the stated purpose of the SRDs. In addition to real national and/or regulatory particulars (Powers of Attorney, registered registrations, etc.), these difficulties relate to practices specific to certain actors that are party to the voting process. Inconsistencies were also highlighted between the desire to promote voting and shareholder dialogue under the SRDs and a planned directive on multiple voting rights (Listing Act), which destroys the power of investors to influence companies, given the disconnect between economic power and voting. We advocated for consistency across Europe enabling a vote to be accepted when cast close to the AGM, which technology already exists to facilitate.

**OUTCOME:** The European Commission will gather views from stakeholders on certain aspects of the SRDs, as well as a broader range of the provisions of the SRDs and potential future changes.

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# 2 Thematic engagement: focus on the 3Es

## 3Es: Energy transition

**The majority of our engagement to drive the energy transition is undertaken through collaborative investor initiatives like Climate Action 100+ (CA100+) and the Asia Investor Group on Climate Change (AIGCC) Asian Utilities Engagement Programme. However, we also engage with companies individually to advance our financed emissions reduction goals.**

Our thematic engagement is central to our commitment to being a future maker and focuses on the **'3Es' – 'ENERGY TRANSITION', 'HEALTHY ECOSYSTEMS' and 'EQUALITY'.** This is because we believe climate change, nature loss and widening inequalities to be global systemic risks. Our engagement is designed to deliver a low-carbon global economy which operates within the nine planetary boundaries while providing everyone with the opportunity to play their part in that economy and to be treated in accordance with international human rights principles and standards. We deliver this through both collaborative and direct engagement.

**We aim to establish in-depth dialogues with companies, by, for example, urging them to:**

- align their corporate strategies and capital deployment with the goals of the Paris Agreement;
- reduce their impacts and dependency on nature and determine how they can make a positive contribution to the restoration of ecosystems in line with the goals of the Global Biodiversity Framework;
- provide greater opportunities for women at all levels of the organisation;
- respect human rights within their own operations and across their supply chains;
- adopt more equitable and transparent remuneration policies that ensure that profits are distributed more fairly across the business;
- ensure that their products are accessible and affordable for all.

CASE STUDY

## Green Finance Industry Taskforce consultation

**OBJECTIVE:** Building on the two earlier rounds of consultation, a third and final consultation paper was released in February 2023 by the Government of Singapore, which sought views on the detailed thresholds and criteria for classification of green and transition activities in five sectors:

**1 -** agriculture and forestry/land use;

**2 -** industrial;

**3 -** waste and water;

**4 -** information and communications technology;

**5 -** carbon capture and sequestration

The consultation also sought views on the "Do No Significant Harm (DNSH)" criteria proposed. BNPP AM was invited in March to attend an industry roundtable with MAS to discuss implementation of the taxonomy.

**ACTIVITY:** We contributed to our trade association's response (ASIFMA). Our sustainability analysts provided specific feedback on classifications relating to their sectors (e.g., palm, cement) and the DNSH criteria. We also supported the measures-based approach adopted by the Green Finance Industry Taskforce (GFIT) Taxonomy for the industry sector. It is important to recognise that the industrial sector is inherently 'in transition', but we emphasised the need for consistent reporting by corporates in order to make the information 'decision-useful'. In the MAS industry roundtable, we emphasised the need for underlying data from companies, and that reporting at a corporate level may remain challenging; reporting at a facility level (e.g., for green bonds) is an option.

**OUTCOME:** The third consultation ended in March 2023. GFIT was due to publish the final taxonomy, which it said would take into account feedback from all three public consultations, by the end of June 2023. The Government of Singapore is working with the EU on a common taxonomy that provides 'inter-operability', i.e., to ensure that the two systems are fully aligned.

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# VOTING AND ENGAGEMENT

CASE STUDIES

COLLABORATIVE ENGAGEMENT

## Climate action 100+: Engagement to drive adoption of the Net Zero Company Benchmark standards (1/2)

**CONTEXT:** We are a long-standing member of CA100+ which facilitates investor engagement with the world's 170 biggest emitters responsible for around 85% of global emissions[6]. The initiative set out three overarching goals for companies relating to:

**1 -** governance and oversight of climate change risk;

**2 -** action to reduce greenhouse gas emissions across the value chain consistent with the Paris Agreement's goal of limiting global average temperature increase to well below 2°C above pre-industrial levels, aiming for 1.5°C. Notably, this implies the need to move towards net zero emissions by 2050 or sooner;

**3 -** enhanced corporate disclosure and implement transition plans to deliver on robust targets in line with the final recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and other relevant sector and regional guidance.

Since 2021, the companies' progress on disclosure has been measured against 10 metrics of the Net Zero Company Benchmark (NZCB). Several other metrics measure performance. This benchmark is produced by the initiative in October of each year, with underlying analysis provided by several expert research bodies. The collaborating investors then engage with companies, in small groups, to encourage them to meet the expectations embedded in the benchmark.

Having come to the end of the first five-year cycle in 2022, the initiative published in 2023 a review of progress up to October 2022, illustrated on page 12 of their report. In summary, an increasing number of companies had set a net zero ambition for 2050 as well as long-term targets. Progress was slower in setting medium-term targets and particularly short-term targets. Few companies had published decarbonisation strategies that meet the standards of the NZCB. Only one company - Enel Spa - had illustrated how it will reorientate its capital allocation to deliver on its climate commitments. More companies were partially or fully meeting the initiative's expectations on transparent, Paris-aligned climate lobbying. By 2022, nearly a quarter of companies had satisfied all of the aspects of good climate governance and over a third had published complete TCFD reports.

For the second cycle of CA100+ beginning in 2023, the initiative made several changes to how it operates. It offered members the opportunity to make changes to the companies they lead engagement with, or support as a contributing investor. It also updated the methodology of the NZCB and strengthened its membership requirements.

We took this opportunity to increase our involvement and recalibrate it with our holdings. We now co-lead engagement with 10 companies (those in bold are new since 2023): **Danone**; China Petroleum & Chemical Corp (Sinopec); Exxon Mobil; Iberdrola; Nestlé; Power Assets Holdings; PTT; Repsol; Saint-Gobain; Stellantis. (We no longer co-lead engagement with Naturgy.) We are a contributing investor for engagement with 11 companies: for those shown in bold we were confirmed in this role late in 2023. Air Liquide; **Anhui Conch**; **Carrefour** (new to CA100+ focus list); Chevron; Delta Airlines; **Samsung Electronics** (new to CA100+ focus list); Southern Company; **Unilever**; **United Tractors**.

We are also a co-chair of the European Climate Lobbying Working Group of CA100+, and sit on the Corporate Programme Advisory Group and the CA100+ Steering Committee.

**OBJECTIVE:** The goal of our engagement is that companies meet all of the expectations embedded in the NZCB. During the first three quarters of 2023 we continued to engage with CA100+ companies based on the engagement plan linked to the 2022 NZCB results. Then, following the release of the 2023 NZCB in October 2023, we started to prepare for the next engagement cycle (from October 2023 to September 2024). We developed engagement plans with participating investors as required by CA100+ and submitted them to the initiative's secretariat.

Companies varied in their receptivity to engagement over the year and willingness to take the steps we requested to improve their performance and transparency. This was compounded by changes to the investor groups and related delays in reaching out to the companies to continue previous engagement.

Having been active in 2022, during most of 2023 Stellantis did not respond to ten requests made by the CA100+ investor group for an engagement call. It was therefore decided to escalate our request by sending a letter to the Senior Independent Director/Chair of the ESG Committee.

It was only after this step that the company's IR and sustainability teams responded. A call was eventually held in November 2023 once the results of the NZCB 2023 had been published.

Similarly, **Iberdrola** became much less responsive, only providing short written answers to some of our requests. We last wrote in December to ask again for a call but had not received a reply by the end of the year. The only engagement call with **Saint-Gobain** took place in December 2023 to discuss its NZCB results. Having only become a co-lead for Danone late in the year, we did not have a call with the company to discuss issues other than lobbying during 2023. (The results of our engagement on that subject are in a separate section below.)

6 - Up to 2022, the initiative covered 168 companies. From 2023 onwards that figure has increased to 170 companies: 14 companies were added to the focus list while ten companies were removed based on a series of criteria ranging from corporate actions, the war in Ukraine, changes to emissions profiles and investor interest.

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# VOTING AND ENGAGEMENT

CASE STUDIES

COLLABORATIVE ENGAGEMENT

## Climate action 100+: Engagement to drive adoption of the Net Zero Company Benchmark standards (2/2)

We had introductory calls with **Carrefour** and **Samsung**, as they are new additions to the CA100+ initiative, and led calls on lobbying with Danone and Unilever, outlined separately on page 79.

We had the most extensive and productive engagement with **Repsol**, **Nestlé** and **Power Assets.**

**ACTIVITY:** We engaged with Repsol in each quarter of 2023. During our exchanges, the main requests we made of the company, many of which we had made in previous years, were to:

- take steps to achieve the standards embedded in the NZCB, given its importance to investors and other stakeholders, and provide feedback on the draft IIGCC Net Zero standard for the sector;
- provide more absolute emissions reduction figures;
- set targets that include all Scope 3 emissions particularly those from its downstream business which it currently omits – beyond the new scenario analysis and other detailed disclosures it made this year;
- publish more detail on its methodology for the Carbon Intensity Indicator (CII) and bring it into line with the standard industry methodology for such calculations;
- disclose more information about its new project plans (capex), particularly break-even points, and data on revenues aligned to the Green Taxonomy;
- confirm its planned schedule for future Say-on-Climate votes and provide more comfort that the Board has the appropriate composition and knowledge;
- be more transparent in relation to its direct and indirect climate advocacy and ensure its lobbying supports the realisation of the Paris agreement.

**OUTCOME:** We made some progress with the company on some points but not on others. Repsol confirmed that it follows the NZCB closely and strives to improve where feasible.

It committed to provide feedback to IIGCC on the draft NZ sector standard. However, it did not commit to incorporate Scope 3 emissions within its targets, nor agree to bring its CII calculation method into line with industry practice.

The company provided additional granularity on the break-even figures for new projects which we welcomed. However, we emphasised investors' need to have forward-looking indicators about the pace of transition and commodity price thresholds, and asked for formal disclosure on what percentage of the capex will flow to high-carbon vs low-carbon investments, showing how this will change over time. Repsol also committed to provide taxonomy-aligned data and their definitions/assumptions underlying this data. Finally, it agreed to have a separate call to discuss climate lobbying.

**ACTIVITY:** We had meetings with the three companies we co-led engagement with during the year, to discuss various aspects of their progress towards achieving the standards set out by the NZCB.

We saw particular progress in the case of Power Assets. As well as taking part in the group-wide meetings, alongside our co-lead investor we met the company's CFO in person to discuss recent group-wide commitment by CK Hutchinson, its ultimate parent company, to pursue net zero. We discussed decarbonisation for Hong Kong, the role of nuclear transmission from China for the city, as well as technology switching from gas to hydrogen, which is in the plans for its gas assets.

**OUTCOME:** CK Hutchinson made a group-wide commitment of reducing Scope 1 and 2 emissions by 50% by 2035 versus a 2020 baseline, as well as a commitment to pursue net zero emissions across its value chain by 2050. Power Assets has also committed to a 67% reduction goal by 2035.

# VOTING AND ENGAGEMENT

**CASE STUDIES**

COLLABORATIVE ENGAGEMENT

## AIGCC Asian Utilities Engagement Programme

**CONTEXT:** Asian power utilities currently have a high dependence on coal. We co-lead the engagement with Tenaga Nasional Berhad (TNB), the largest electric utility company in Malaysia, under this initiative.

**OBJECTIVE:** We aim to encourage Asian power utilities to accelerate their coal phase-out by 2040 at the latest (for non-OECD based companies) and transition towards net zero by 2050 at the latest.

**ACTIVITY:** In 2023, we continued previous discussions about the company's emissions reduction intentions. The company has announced a net zero ambition and started to work on its roadmap and targets to achieve it. While its emissions reduction targets align with Malaysia's NDCs, they are not yet sufficient to align with the Paris Agreement or with frameworks such as SBTi.

In June 2023, we also participated in an in-person multi-stakeholder policy roundtable organised by AIGCC. At the roundtable we discussed the role of gas and coal phase out among other topics. Tenaga, investors and local policy makers and regulators attended.

**OUTCOME:** The company has increased receptiveness towards early coal phase-out proposals since Malaysia's National Energy Transition Roadmap (NETR) was launched in August 2023. The remaining barriers include existing power purchase agreements (PPAs), negotiations with multiple stakeholders (particularly where TNB does not have 100% ownership), and the lock-in for gas if coal is replaced by gas rather than renewables. Just transition also needs to be considered in parallel from the start of any phase-out plan, in line with the recently released Glasgow Financial Alliance for Net Zero (GFANZ) guidance on managed coal phase-out that we helped draft.

We had constructive discussions on the company's progress to date, in particular renegotiation of TNB's power purchase agreements and potential for early coal phase-out. One of its plants is slated to close one year early. We underlined investors' expectations to phase-out coal by 2040 at the latest for non-OECD based companies, the urgency of embedding an accelerated coal exit within its plans and aligning with frameworks such as SBTi. We also explored in more detail renewables opportunities for TNB under NETR.

**Jane Ho**
Head of Stewardship – Asia Pacific

*"In the Asia Pacific region, countries are at different stages of development and decarbonisation journeys - this is why understanding the nuances, including social and geographical ones, is critically important for impactful engagements. We value working with our peers on collaborative engagements to support focus companies and governments to move forward."*

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CASE STUDIES

COLLABORATIVE ENGAGEMENT

## Continuing our leadership on Paris-aligned climate lobbying engagement (1/2)

**CONTEXT:** Realising a low-carbon future as envisaged by the Paris Agreement depends in large part on supportive policy, regulations and fiscal measures. It is therefore critical that companies and the industry associations they belong to do not obstruct the passage of such measures and – ideally – proactively support them. This is why the CA100+ NZCB Indicator 7 assesses the extent to which companies align their climate policy engagement with the Paris Agreement.

In addition to co-leading engagement with ten CA100+ companies globally and raising this topic, BNPP AM is one of five co-leads of the CA100+ Climate Lobbying Working Group for Europe. Each year, this group identifies which European companies perform most poorly on this issue within the NZCB and identifies ways in which engagement can be stepped up to improve their performance. We then support the companies' CA100+ co-leads' engagement on lobbying or undertake separate engagement directly.

While TPI assesses companies' disclosed commitments on lobbying, InfluenceMap, an independent think tank, assesses various aspects of CA100+ companies' policy positions and lobbying activity on an ongoing basis, assigning each a rating from A to E. (It also evaluates the quality of companies' lobbying reviews once they publish them and provides a score for each review out of 100.) These assessments provide investors and other stakeholders with valuable tools to use to evaluate companies' progress with respect to both disclosure and performance. The report details how few companies' lobbying supports policies necessary to deliver the Paris Agreement goals. In fact, only 4% of companies are aligned. Clearly, much more engagement is needed to improve companies' performance in this critical area.

**OBJECTIVE:** Encourage selected CA100+ companies to align their direct and indirect climate lobbying activities with the temperature goals of the Paris Agreement. Specifically, we ask them to produce annual reports on these efforts, consistent with the Global Standard on Responsible Climate Lobbying, which we helped to develop and launch in 2022 with other investors.

### Europe

**ACTIVITY:** We had in-depth discussions during the year with four European companies: Nestlé (February 2023), Danone (April 2023), Unilever (September 2023) and Repsol (November 2023).

We provided each with a detailed bespoke gap analysis of their performance against the Global Standard leveraging the analysis of TPI and InfluenceMap. All of the companies welcomed that analysis and the clear guidance we provided on how disclosure needed to be improved. Repsol and Unilever have yet to publish updated disclosure, which they promised to do in 2024. Here we outline the outcomes in relation to those companies, and the outcome of our 2022 engagement with Air Liquide.

**OUTCOME: Air Liquide:** Having provided the company with detailed feedback on its draft assessment of its lobbying activities in December 2022, Air Liquide published its updated disclosures along with its URD in February 2023. InfluenceMap has given the company's review a score of 36/100 using its updated 2023 methodology. Further, the company's rating on Indicator 7 of the NZCB increased from not meeting any criteria to partially meeting them. Despite modest improvements, the company therefore still has some way to go to meet the Global Standard.

**Danone:** We were pleased that the Danone Position on Climate Advocacy was published in late May 2023, which brought its approach more closely into line with the Global Standard. This document reiterates the company's emissions reduction targets, and outlines the principles it urges policymakers to embrace in setting climate policy. It also includes a commitment to conduct its advocacy in line with the Paris Agreement and its own climate policy goals, i.e., to restrict global average temperature rise to 1.5°C. Danone also committed to work to ensure alignment between its position and those of the trade associations, coalitions and platforms at global, regional and local levels. It also provides recent examples of positive climate advocacy.

In December 2023, the company published an updated Danone Policy on Advocacy (which covers its advocacy on all topics, not just climate). It includes a description of how the company governs advocacy, and internal measures and processes around conflict of interest and whistleblowing, disclosure of key global and regional trade association and coalition memberships and board seats, and a commitment to address any misalignment with trade association positions, including on climate. The company also noted it will publish positions on key policy topics on its corporate website, a summary of advocacy on key topics during the preceding year (including climate) and will roll out a training programme to teams in all countries. Danone now meets all indicators within Indicator 7.1 of the NZCB and achieves a B rating on this element of its advocacy from InfluenceMap.

The company also signposted readers to its annual CDP Climate survey response, which includes information about its lobbying activities. Taking all of these materials together, InfluenceMap gave Danone a score of 50/100 for its review of climate lobbying, the second highest score any company has achieved to date. We welcome these improvements and will continue to press the company to disclose more about its indirect lobbying in future.

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CASE STUDIES

COLLABORATIVE ENGAGEMENT

## Continuing our leadership on Paris-aligned climate lobbying engagement (2/2)

**Nestlé:** Following our dedicated call on climate lobbying in February 2023, in May 2023 the company published a much-improved Climate Advocacy Industry Associations Review. It was much more comprehensive and better aligned to the Global Standard than the previous report, reflecting many of the recommendations we had made. These included providing extensive information on governance arrangements, increasing the number of associations assessed and analysis of each one against clear criteria, including alignment of positions with the Paris Agreement.
Nevertheless, InfluenceMap gave the review a score of only 36/100, which illustrates substantial room for further improvement. InfluenceMap also believes that the climate lobbying of many of the trade associations to which Nestlé belongs is partially misaligned with the Paris goals.
This, too, will be a focus of our discussions in 2024.

### U.S.

As well as co-filing a shareholder resolution at UPS to request climate lobbying disclosure, as described on page 65, we also contacted Exxon Mobil to ask about the veracity of reports we had read that indicated it had provided funding for the Texas Policy Foundation and the State Financial Officers Foundation, which have both been linked to recent anti-ESG policy work. The company denied providing any funding for the Texas group.

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# 3Es: Ecosystems

## Reducing the negative environmental impact of our investments and stimulating positive impact.

HIGHLIGHT

### BNPP AM plays leading role in developing and launching Nature Action 100

**CONTEXT:** We are in the midst of a mass extinction crisis that 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. Collaborative engagement is particularly well suited to addressing systemic risks. While a broad range of long-term collaborative investor engagements exist that focus on various drivers of the biodiversity crisis, including climate change, deforestation, plastics, chemicals, etc., there was no single collaborative engagement focused explicitly on nature loss.

**OBJECTIVE:** Form a collaborative investor engagement initiative to initially engage with the 100 companies most systemically important to achieving the global goal of reversing nature loss by 2030.

**ACTIVITY:** We have worked with a group of institutional investors for nearly two years to launch Nature Action 100 (NA100). We 'soft launched' the effort in Montreal at the end of 2022, in tandem with COP15 of the Convention on Biological Diversity. Investor participants will engage initially with 100 companies drawn from eight sectors identified as significant contributors to nature loss – chemicals, biotech and pharmaceuticals, consumer goods retail, food and beverage, retail and restaurants, metals and mining, forestry and paper products and household and personal goods. All 100 companies were notified of their inclusion in the initiative in an introductory letter to the CEO outlining NA100's core investor expectations.

Our first steps, in the fourth quarter of 2023, were to co-sign letters to all 100 companies and express our interest in joining teams to engage companies in Asia, Europe and North America. We also submitted detailed comments on a draft benchmark which will be used to gauge corporate progress against NA100's objectives.

**OUTCOME:** As of the end of November 2023, more than 200 institutional investors from around the world, managing or advising more than $27 trillion, had agreed to participate, and by the end of the fourth quarter, investor engagement teams had been formed. From now on, we will be participating in engagement with Archer-Daniels-Midland Company (ADM), Conagra Brands Inc., Danone, General Mills Inc., The Home Depot, McDonald's Corporation, Sime Darby Plantation and Solvay. We were also pleased to take the role of co-Chair of the NA100 Steering Group.

**Adam Kanzer**
Head of Stewardship – Americas

*"The collapse of nature will touch every aspect of our lives and our economies. We must act now to end deforestation, but we must go further, engaging on all key drivers of nature loss, which include climate change, land use change, exploitation of species, invasive species and pollution, including chemical and pesticide use."*

CASE STUDY

COLLABORATIVE ENGAGEMENT

### Improving corporate disclosure of environmental impacts

**CONTEXT:** In 2023, for the second time, we participated in the CDP Non-Disclosure Campaign to encourage companies selected by CDP to respond to its annual surveys assessing corporate performance on climate, water and forests.

**OBJECTIVE:** Drive further corporate transparency around climate change, deforestation, and water security.

**ACTIVITY:** The campaign officially launched in May 2023, with a record 288 financial institutions with nearly US$29 trillion in assets participating in the coalition. We acted as lead for the engagement with five companies, focusing on Water Security disclosure, and co-signed letters to 1,590 companies.

**OUTCOME:** In total, 317 companies disclosed via the relevant CDP questionnaires, representing a 20% success rate. The highest success rate was in the Climate disclosure category (20%), followed by Forests and Water security (each at 14%). We also led the engagement with five companies with significant impacts on freshwater within our top holdings. Of those, two submitted the questionnaire, while the three others did not respond to our engagement; we voted against items on the agenda of these three companies' AGMs. We intend to continue our engagement through the CDP NDC campaign in 2024 with a focus on our portfolios' highest impacts.

| | Engaged | Disclosed | % |
|---|---|---|---|
| Climate change | 1,234 | 221 | 20% |
| Forests | 414 | 58 | 14% |
| Water security | 463 | 66 | 14% |
| **Overall results** | **1,590** | **317** | **20%** |

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HIGHLIGHTS

# Public policy engagement

## CDP Investor letter to governments on water

The CDP coordinated and issued an open letter to governments in March 2023 to emphasise the need to accelerate the implementation of initiatives to achieve Sustainable Development Goal 6 (increasing access to water and sanitation) and other water-related targets. It called on policy makers to deliver robust water action in the run up to the UN General Assembly 2023 Water Conference being held that month.

**We joined other investors with US$3 trillion in AUM to sign this letter which called on all governments to:**

1. Strengthen their National Sustainable Development Strategies for 2030 before the UN Water Conference, to ensure a planned and equitable transition to a water secure world by 2030 or sooner;
2. Commit to ambitious, domestic short-term water targets and outline a pathway, including clear water secure roadmaps, for each water-dependent sector;
3. Implement domestic policies to deliver these targets, incentivise private investments in water solutions and ensure ambitious pre-2030 action through: efficient mechanisms for pricing water risks and impacts, the removal of environmentally harmful subsidies by set deadlines, and the development of just transition plans for affected workers and communities, and;
4. Commit to implementing mandatory water disclosure requirements aligned with international best practice recommendations that work for people and planet, ensuring comprehensive disclosures that are consistent, comparable, and decision-useful.

## Investor Policy Dialogue on Deforestation (IPDD)

We joined the IPDD in May 2023. IPDD aims to coordinate a public policy dialogue with government authorities and other key stakeholders to halt deforestation, with an initial focus on tropical forests and native vegetation in key countries.

The objective of the IPDD initiative is to ensure long-term financial sustainability of members' investments in the countries they are invested in by promoting sustainable land use and forest management and respect for human rights. Through collaborative engagement, the IPDD urges relevant government authorities and industry associations to adopt and implement regulatory frameworks that ensure protection of tropical forests and human rights.

The IPDD was established in 2020 and is hosted by the World Economic Forum/Tropical Forest Alliance and supported by the Principles for Responsible Investment. It is supported by 67 investors with c. US$10 trillion in AUM. The group is focused on the producing nations of Brazil and Indonesia and key consumer nations, China, the EU and the United States.

This list may expand in the future. During 2023, we participated in Working Group calls for Brazil, Indonesia and the U.S.

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# Biodiversity and human health: addressing the pharmaceutical industry's dependency on horseshoe crabs (1/2)

**CONTEXT:** Virtually every vaccine, injectable drug and medical device implanted in the human body must first be tested for potentially deadly endotoxin contamination. The standard test relies on a component of the blood of the horseshoe crab.

Horseshoe crabs are miraculous: there are four species in all, one North American and three Asian. They predate the dinosaurs by 100 million years and have survived five mass extinction events. While these tests are critically important to protect human health, horseshoe crab populations are declining. The four extant species of horseshoe crabs were described by the International Union for Conservation of Nature (IUCN) Species Survival Commission in 2019 as being imperilled. They cited a wide range of threats including overfishing for use as food, bait, habitat loss or alteration due to shoreline development, and armouring against coastal erosion. Another factor is their use in endotoxin testing. These combined pressures have led to one of the three Asian species to be declared endangered and the U.S. species to be designated as vulnerable by the IUCN specialist scientists. If these populations cannot be sustained, both human health and corporate profitability are at risk, as well as other species that depend on these crabs for their survival. One key example in the U.S. is the rufa red knot, a species of shorebird that is currently threatened with extinction due to the declining number of horseshoe crab eggs, a key food source.

The acronyms for the blood component used for testing are TAL if extracted from Asian crab species and LAL if collected from the U.S. species. Synthetic alternatives to both are now available and approved for use by EU and U.S. regulators, and technologies exist to substantially reduce the volume of horseshoe crab blood in standard industry testing kits. The U.S. Pharmacopeia (USP) published a draft chapter in August which would further facilitate the widespread use of synthetic alternatives for endotoxin testing and opened a comment process that closed on 31 January 2024.

**OBJECTIVE:** To reduce the pharmaceutical industry's dependency and impact on horseshoe crabs while placing human health on a more secure foundation.

**ACTIVITY:** Towards the end of 2021, we wrote to 14 pharmaceutical companies to encourage them to transition to the widely approved synthetic alternative. In early 2022, after a disappointing response rate, we raised the issue with the Pharmaceutical Supply Chain Initiative (PSCI), a membership organisation representing 75 of the world's largest pharmaceutical companies that tackles pre-competitive supply chain challenges. PSCI agreed to take the issue to their membership, and an industry working group was formed.

In May 2023, PSCI published a position paper on the use of horseshoe crabs in the pharmaceutical sector, listing a series of 'good practices', including an immediate end to the use of the blood of two species of the Asian horseshoe crab, one of which is endangered, and encouragement to minimise the use of horseshoe crab blood in endotoxin testing techniques worldwide, including by using synthetic alternatives. It also suggested the companies share data on the health of the horseshoe crab populations, to better understand industry use and population health. After the release of the PSCI position paper, we again raised the issue with 21 companies (14 in Europe, 7 in the U.S.). We asked them to explain where they stood in relation to the PSCI Good Practices and to work towards fully adopting them. We also urged them to submit supportive comments on USP's proposals and probed the extent to which the companies had a good understanding of the status of the North American horseshoe crab populations.

**OUTCOME:** We have learned through our engagement that it takes time to transition to synthetics once a company has performed the necessary tests to ensure patient safety will continue to be protected. We know that global demand for endotoxin testing will only go up in the future, at unpredictable rates; while the timing of future epidemics and pandemics is unpredictable, they will undoubtedly come. If a future LAL/TAL shortage prevents the pharmaceutical industry from developing and producing new vaccines at a moment's notice, lives will be unnecessarily lost, profits sacrificed and economic shutdowns extended.

The industry's lack of preparedness for this highly predictable risk places profits, portfolios, economies, lives and ecosystems at risk.

Several companies responded in writing or agreed to have calls (or both); Biogen (including members of the board), Bristol-Myers Squibb, Johnson & Johnson (in writing), Merck and Pfizer in North America and AstraZeneca plc, Fagron NV, GSK plc, Merck KGA, Novartis AG, Novo Nordisk A/S, Orion OYJ, SANOFI SA, UCB SA in Europe. We learned that these companies are at different stages of addressing this challenge. A few were not aware of the issue until we raised it. Of those that were, nearly all concurred that there is a need to reduce the industry's dependency on this ancient species. Many confirmed that they had already taken steps to end the use of tests based on TAL in their own labs and/or by first tier suppliers and replace them with LAL-based tests. While this is marginally preferable because the Asian species is classed as endangered, it nevertheless puts more pressure on the threatened North American crab population.

**There are essentially three phases in the process of development pharmaceuticals where LAL/TAL is used:**

- the testing of all water used by laboratories;
- the testing process that is approved by a regulator for new drugs; and
- the testing process that was approved by regulators for existing, 'legacy' products.

Many companies confirmed they had already switched, or were in the process of switching, the testing of lab water to synthetics. This is a welcome step, as this pre-regulatory phase of testing accounts for a large proportion of the LAL used – with estimates up to 90%. Other firms are still conducting experiments to ensure that the synthetic tests

# Biodiversity and human health: addressing the pharmaceutical industry's dependency on horseshoe crabs (2/2)

are equivalent to LAL-based tests, and determining whether they are suitable for their needs. Most companies seemed to agree that if the equivalence can be proven, and subject to regulatory approval, they should be in a position to move to testing all future products using synthetics. However, they cautioned that transitioning testing for legacy products would be much more difficult and costly, given that those products had been accepted for sale by regulators based on specified TAL or LAL tests. Additional regulatory guidance will be needed to eliminate this final hurdle, a request several companies have indicated they are making.

After two years of outreach, we had not received any substantive response from Amgen. Therefore, in December, we submitted a shareholder proposal asking for a public report on the company's biodiversity impacts and dependencies. The body of the proposal focused on the horseshoe crab issue, as an example of one key dependency on nature. Soon thereafter, the company responded, and we have had several productive calls. We learned that Amgen is aware of the issue and has been taking steps to address it. We are considering withdrawing the proposal in exchange for a commitment to provide regular public reports on their phase-out process.

As of the end of 2023, Vetoquinol SA had not responded to our request for engagement nor had endotoxin testing supplier Lonza Group AG. Orion OYJ had provided a brief written answer to our original enquiry but did not respond to a follow-up request for a call.

In 2024, we hope to accelerate progress at those companies that are already taking steps and engage with additional companies. We look forward to the PSCI's report on progress, which it committed to compile, and to continue to engage with the PSCI to drive further progress across the industry.

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# Food system transformation (1/4)

## FOCUS

**The current food system is responsible for around 30% of global emissions**; without concerted action by the food and agriculture sector we will not achieve net zero or cap global average temperature rise at 1.5°C. It has also been identified as the principal driver of nature loss, through land conversion and particularly deforestation and degradation of high-value ecosystems. The food system is also responsible for substantial water and chemical use, and waste and pollution. Rates of obesity and diet-related disease continue to rise around the world, due to the poor nutritional quality of much of the food sold and the lack of access faced by many to healthy affordable foods. At the same time, millions continue to suffer food insecurity, micronutrient deficiencies and undernutrition. Issues relating to human rights also crop up regularly, as do alleged mistreatment of workers. Poor animal welfare practices are a leading contributor to the rise of antimicrobial resistance (AMR) – and are expected by experts to contribute to the next pandemic, when (not if) it comes. As such, this is a sector that sits at the cross-roads of our **3Es** and necessitates wide-ranging engagement.

We therefore maintained our focus this year on this sector in all regions, with the ambition of driving a transformation towards a healthier and more sustainable food system. Other than our engagement with companies on climate-related issues through CA100+, discussed in the previous section, we also worked in different ways, usually with other investors, to press companies to address a variety of issues, as the case studies below illustrate. In some cases, we engaged directly with the companies.

### Public policy engagement

Letter to **G20 Finance Ministers calling for an end to harmful agricultural subsidies (FAIRR)**

In August 2023, we were pleased to sign a statement developed by FAIRR, along with 32 other investors with US$ 7 trillion in AUM, that called on the G20 finance ministers to repurpose agricultural subsidies in line with Paris climate commitments and Kunming-Montreal commitments on biodiversity. Subsidies and other incentives make up around 15% of total agricultural production value globally. In total, the UN has identified almost US$ 470 billion of annual subsidies that are price distorting and environmentally and socially harmful, representing 87% of all agricultural subsidies worldwide. Subsidy regimes are estimated to drive US$ 4-6 trillion of economic costs per year through damage to nature.

**Recommendations to the G20 Finance Ministers included:**

- Use measurable, performance-based conditions to deliver financial support to Member States and farmers in proportion with the cost of delivering public goods or environmental services;
- Shift incentives that prioritise yields of certain products at the expense of the climate and environment and balance this with new monetary incentives that put a value on sustainable agriculture;
- Decouple support from production metrics for single commodity transfers with high associated greenhouse gas emissions; and
- Increase available funding for Just Transition Mechanisms or funds to unlock the necessary finance to support affected stakeholders who are impacted by reforms.

**Rachel Crossley**
Head of Stewardship – Europe

*"The economic and planetary case for transforming food systems is compelling and one on which investors must act. The groundbreaking, authoritative Food System Economics Commission Global Policy Report[7] calculated that the economic value of the human suffering and planetary harm to food systems is well above US$10 trillion a year, substantially more than it contributes to global GDP. In short, our prevailing food system is destroying more value than it creates."*

7 - FSEC-Executive_Summary-Global_Policy_Report.pdf (foodsystemeconomics.org).

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# Food system transformation (2/4)

FOCUS

## Transition to sustainable proteins (1/2)

**CONTEXT:** The climate crisis, coupled with global food security and worsening diet-related health around the world, necessitate a huge dietary shift away from animal-based proteins. Nearly 14.5% of global GHG emissions are attributed to livestock production. The sector is also the number one cause of deforestation due to cattle ranching and soy production, uses a huge amount of water and causes extensive pollution. It is also the largest user of antibiotics. Alternative proteins can and should play a role in mitigating the environmental impacts of the global demand for protein. Alternative proteins are plant-based, and often utilise fermentation and cultivation technologies. They are less resource-intensive than conventional animal proteins. Increasing the consumption of alternative proteins is essential to food system transformation.

**OBJECTIVE:** To increase the proportion of alternative sustainable proteins manufactured and sold by major food manufacturers and retailers, and to improve sustainability of current protein production practices, working through collaborative investor initiatives.

| Initiative | FAIRR Protein Diversification Engagement | Asia Protein Transition Platform (ARE) |
|---|---|---|
| **Investor supporters** | US$10.8 trillion investor initiative coordinated by FAIRR. | US$3 trillion investor initiative coordinated by Asia Research and Engagement (BNPP AM is a founding member). |
| **Initiative scope** | 20 global food manufacturers and retailers.<br>BNPP AM will support engagement with selected companies we hold. | 40 of Asia's largest listed and most influential protein producers, manufacturers, retailers, hotels and restaurants. BNPP AM will support engagement with selected companies we hold. |
| **Engagement asks** | **1 -** Integration of protein diversification into climate strategies;<br>**2 -** allocation of resources to diversify the protein portfolio and improve nutrition and sustainability attributes;<br>**3 -** engagement of consumers to promote the uptake of nutritious and sustainable alternative protein sources. | Annual reporting against the initiative's expectations, and progress towards its 2030 protein transition vision. |
| **Activity** | We signed joint investor letters prepared and sent by FAIRR in November to the CEOs of the following companies to request engagement about the companies' strategy on sustainable/alternative proteins: Ahold Delhaize and Carrefour in Europe and Amazon, ConAgra, Costco, General Mills, Kraft Heinz, Kroger, Loblaw, Mondelez, Target, Hershey and Walmart, in North America.<br>In Europe, Ahold Delhaize and Carrefour agreed to engage. BNPP AM will serve as lead for both engagements. | We had bilateral engagements with SM Investments, QL Resources, Yum China, Jollibee and China Mengniu. Discussion focused on the traceability of raw materials, deforestation, GHG emissions, and animal welfare, including the responsible use of antibiotics. |

# Food system transformation (3/4)

FOCUS

## Transition to sustainable proteins (2/2)

### Asia Protein Transition Platform (ARE) outcomes

The ARE programme is further advanced than the FAIRR programme, having been launched earlier. During the year we had bilateral engagements with SM Investments, QL Resources, Yum China, Jollibee and China Mengniu. Discussion focused on the traceability of raw materials, deforestation, GHG emissions, and animal welfare, including the responsible use of antibiotics.

### Deforestation:

China Mengniu issued a new Forest Protection Policy, including a zero-deforestation commitment (ZDC) by 2030, which we view as a very positive development and hope to reference this when engaging with other dairy companies.

In response to the collective platform effort, Thai Union included a clear ZDC by 2030 in their 2030 strategy published in July 2023.

### Animal Welfare:

China Mengniu released its animal welfare policy which is in line with the FARMS Initiative dairy standards we shared with the company. This policy also includes a meaningful statement to reserve antibiotics for non-prophylactic use as a result of collective feedback from investors.

Jollibee committed to cage-free egg supply globally by 2035, and by 2025 in the U.S. We had discussed this during our one-on-one meeting with the company and the platform had also nudged the company on the welfare topic over time. This was in addition to NGO campaigning on this specific topic.

Thai Union has also included animal welfare as a material issue in its latest sustainability report in response to collaborative engagement.

The platform also engaged with UOB Bank, which has added animal welfare to its Responsible Finance: Agriculture (excluding palm oil) Sector Policy.

### Alternative Proteins:

UOB Bank included alternative proteins as qualifying for 'green proceeds' loans, an encouraging precedent in the region in response to collective engagement and research.

The other companies were at different stages of their sustainability journeys; most are focused initially on climate and need to extend work to areas such as deforestation, which are inextricably linked to their climate targets. Companies also mentioned barriers in terms of market readiness and lack of a regulatory push, indicating potential need for investor support on policy engagement.

### FAIRR initiative to reduce the threat of antimicrobial resistance (AMR)

**CONTEXT:** An estimated 70% of global antimicrobial use by volume occurs in animal agriculture and contributes substantially to what the World Health Organisation (WHO) considers to be a top ten systemic global risk to public health and the economy. For many animal pharmaceutical companies, antibiotics and other antimicrobials constitute a material portion of their product portfolios. The overuse and misuse of these products is a significant contributor to AMR, catalysed by current manufacturing, labelling, marketing and sales practices. We therefore agreed to take part in FAIRR's collaborative engagement initiative on this matter.

**OBJECTIVE:** To drive greater disclosure and clarity over if – and how – these companies are addressing the risk of AMR throughout their value chain, from factory to farm. Further, to identify key actions the companies must take to future-proof the long-term sustainability of their antibiotic portfolios, capitalise on the growing demand for alternatives to antibiotics, and reduce the spread of AMR.

**ACTIVITY:** In July we co-signed FAIRR's letters to the CEOs of Vetoquinol SA, Virbac SA and Dechra Pharmaceuticals plc., in Europe and Merck, Zoetis and Elanco in the United States. We also joined a parallel initiative focused on restaurant chains, signing letters to McDonald's, Starbucks, Yum Brands, Darden, Texas Roadhouse, Domino's, Bloomin Brands, Restaurant Brands International and Papa Johns.

**OUTCOME:** The industry organisation, HealthforAnimals, as in previous years, provided a high-level response to the letter on behalf of its six member companies, in which it stated its view that it did not support an engagement process moderated 'by a third-party NGO' (i.e., FAIRR). We are considering what our next step will be in early 2024.

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# Food system transformation (4/4)

FOCUS

## Sales targets for healthy foods

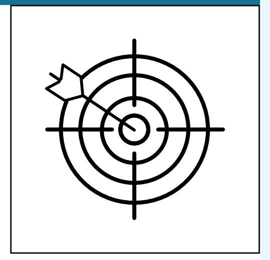
**OBJECTIVE:** To secure commitments from **Nestlé SA** to improve its targets and performance on nutrition, diets and health, specifically by setting ambitious targets to increase sales of healthy foods.

**ACTIVITY:** To follow up on our letter to the company at the end of 2022, we wrote in February 2023 to ask Nestlé SA the world's largest food company - to set a target to increase the sales of healthy foods. (In 2022 it had committed to assess its products against the Health Star Rating (HSR) nutrient profiling system, providing it with the necessary data to be able to set such a target. HSR published this information in its Creating Shared Value and Sustainability report for FY2022). In early July, we joined a call with Nestlé SA with other investors facilitated by Share Action's Healthy Markets campaign to hear about the approach it was proposing to setting its target. As we were concerned by some of the proposals the company outlined, and wanted clarification of others, we wrote to the company after the call to ask various questions and make clear our preferences.

**OUTCOME:** Disappointingly, the company did not respond to our questions and suggestions. However, it announced its target at the end of September which indicated that it had not taken our concerns on board. Several elements of the approach the company has taken are problematic: while it does commit to increasing sales of 'healthy foods', it includes in that definition several categories of foods which its chosen nutrient profiling model – the HSR system – states clearly are out of scope, i.e., the HSR is not suitable for assessing the healthiness of those products. These include baby formulas for infants over 12 months of age, instant coffee, and mineral and vitamin products. Further, we had advocated that the company should articulate its target as a proportional target, i.e., with the aim of growing sales of healthy products as a proportion of overall sales, so that over time its portfolio and sales comprise more healthy products and fewer less healthy products.
With respect to its portfolio of chocolates, ice cream and other indulgent high-calorie, low-nutrition products, it has not made a commitment to improve their nutritional profile.
The more positive outcome was that the company pledged to extend its policy on marketing to children up to 16 years of age, from 13 currently, in line with the Investor Expectations on Nutrition and Health, which we support.

# Driving the transition to safe and sustainable chemicals (1/2)

## FOCUS



Synthetic chemicals are integral to modern life; nearly 95% of all manufactured products use these chemicals as inputs. We also cannot solve the climate crisis without them; they are used in solar panels, electric vehicle batteries and many other key components of new technologies critical to our future. Yet few sectors are as firmly implicated in driving the triple global planetary crises of climate change, biodiversity loss and pollution, nor in damaging human health. A study by researchers at the EHESP School of Public Health in France and the Harvard School of Public Health estimated that the costs associated with environmental chemical exposures worldwide may exceed 10% of 2016 global GDP – US$ 7.5 trillion[8]. To put that in context, the sector's total revenues that year were US$ 4.4 trillion.

The chemical sector is the third-largest source of industrial greenhouse gas (GHG) emissions globally. Chemical pollution is a key driver of biodiversity loss; it has been demonstrated to negatively impact insects, pollinators, fish and bird populations, among other species. In terms of impacts on human health, exposure to hazardous chemicals throughout their life cycles threatens workers' health, in the general population, and disproportionately impacts vulnerable and at-risk groups. Concern centres on 'forever chemicals' that do not break down in the environment and accumulate in the bodies of humans and animals.

In the European Union, 75% of the almost 300 million tons of chemicals used annually are considered hazardous to human health or the environment. Many toxic substances have been linked to birth defects, cancer, obesity, attention deficit disorders and a range of other ills.

**During 2023** we therefore began to ramp up our focus on this sector, by joining and beginning to engage through several initiatives to address the systemic risks related to chemical production and use.

**These included:**

1 - The Investor Initiative on Hazardous Chemicals (IIHC), launched in January 2023, where we are a member of the Steering Committee;

2 - Clean Production Action's 2023 Chemical Footprint Project (CFP);

3 - IIGCC's investor expectations for chemical companies' transition to net zero, which we signed;

4 - ShareAction's Investor Decarbonisation Initiative for this sector, which we joined late in the year. (We will therefore report on engagement through this initiative next year.) We also actively support related public policy development.

### Tackling the supply of hazardous chemicals (1/2)

**CONTEXT:** The ChemScore benchmark, published annually by ChemSec, a Swedish NGO, provides investors and other stakeholders with consistent, comparable information on the efforts of 50 of the world's largest chemical producers to reduce their chemical footprint and transition to portfolios of safer, less persistent chemicals. It also rates companies' chemicals management strategies. Better disclosure of this type of information helps us score these companies more accurately in our ESG ratings and to identify key areas for further engagement. Working through the Investor Initiative on Hazardous Chemicals (IIHC) we engage with selected chemical manufacturers to address these issues and encourage them to respond to ChemSec's requests for information when they are compiling the annual benchmark. IIHC is supported by more than 50 institutional investors.

**OBJECTIVE:** To encourage major manufacturers of hazardous chemicals to phase them out and replace them with safe and sustainable alternatives, and to improve their transparency in relation to their current global production and sale of such chemicals or products that contain them.

While there are many types of hazardous chemicals, of particular concern are per- and polyfluoroalkyl substances (PFAS). PFAS comprise around 4,700 man-made chemicals, many of which are hazardous to humans and the environment. Their chemical structure makes them so persistent that they have been termed 'forever chemicals', because they don't break down in nature and so accumulate over time in our bodies and in the environment. PFAS are used in products like fire-fighting foam, cosmetics and non-stick pans for example. PFAS therefore need to be removed from product formulations or substituted with safe alternatives.

**ACTIVITY:** For 2023, ChemScore supported investor engagement with 16 of the 50 companies it rated in 2022. BNPP AM was assigned to lead engagement with AkzoNobel and support engagement with 3M, Dow, LG Chem, PPG, Sherwin Williams and Yara. During the year we had calls with all of them. We asked each company to increase their transparency around production of hazardous chemicals and publish time-bound phase-out plans for persistent chemicals, as well as to take other measures that would demonstrate a commitment to more sustainable modes of production.

8 - Chemical exposure costs globally higher than thought | News | Harvard T.H. Chan School of Public Health

# Driving the transition to safe and sustainable chemicals (2/2)

**FOCUS**

## Tackling the supply of hazardous chemicals (2/2)

In July, we co-signed a letter to the 17 companies that had not responded to ChemSec's requests for engagement in preparation of the 2023 benchmark and four companies it was adding to that benchmark for the first time. The letter encouraged the companies to participate in the research process, emphasising how important we find the disclosure and practices being evaluated. Following publication of the 2023 ChemScore results in November 2023, we co-signed letters to the CEOs of all companies to reiterate our expectations and request continued engagement with ChemSec and/or investors.

**OUTCOME:** Yara's score, rating and rank improved substantially, in part we believe because of the more detailed disclosure the company published in response to our engagement. Small improvements were recorded for AkzoNobel, 3M, Dow and LG Chem while the performance of PPG and Sherwin Williams fell on all measures. We plan to continue to engage with these and other companies during 2024.

**OBJECTIVE:** To encourage companies that use hazardous chemicals in their products to phase them out and replace them with safe and sustainable alternatives.

**ACTIVITY:** We engaged with four companies who use hazardous or so-called 'forever chemicals' in their products. In Asia, we engaged bilaterally with Samsung Electronics on PFAS (one group of hazardous chemicals) as they are used widely in the semiconductor production process.

In February 2023, we joined other investors in a call with Procter & Gamble to discuss their involvement in the project. In June we wrote directly to Reckitt Benckiser Group plc and Koninklijke Ahold Delhaize N.V. to ask them to participate in the 2023 survey. More specifically we asked them this year to provide data for their global operations, and to increase their transparency by submitting to publish the completed survey and to share further details directly with investors.

**OUTCOME:** Samsung acknowledged the growing international regulatory trend to restrict these chemicals but has yet to form a specific response plan. It noted it aims to work closely on this matter with the Semiconductor Industry Association (SIA). The results of the CFP based on the 2023 survey which will be published in April 2024 will reveal whether the performance of Reckitt Benckiser Group plc and Koninklijke Ahold Delhaize N.V. has improved.

## Public policy engagement

### Global framework on chemicals: a roadmap for multi-stakeholder action

An ambitious comprehensive global policy framework is essential to address the chemical sector's myriad impacts and risks. Development of such a framework falls to the multi-UN agency body, the Inter-Organisation Programme for the Sound Management of Chemicals (IOMC). In late September, the Fifth International Conference on Chemicals Management (ICCM5) took place in Bonn, Germany, where the new *'Global Framework on Chemicals – For a planet free of harm from chemicals and waste',* was agreed. This voluntary framework, negotiated over six years with the input of hundreds of stakeholders, has five strategic objectives and 28 targets. Together they provide a roadmap to 2030 to be implemented by national governments, agencies, industry, investors and other stakeholders. BNPP AM strongly welcomes the framework.

Recognising the critical importance of the financial sector to implementing the new framework, the IOMC organised a workshop in June 2023 to discuss how the financial sector might cement its contribution to the realisation of the framework and the global transition to sustainable chemicals.

Having contributed through a similar meeting in the autumn of last year, our Head of Stewardship for Europe, Rachel Crossley, spoke at that workshop. We followed up by co-sponsoring and speaking at a side-event at the final Bonn conference in September that explored the role the finance sector can and should play in realising the implementation of the framework.

### CDP open letter to governments on the plastics crisis

In November 2023, as the Intergovernmental Negotiating Committee (INC-3) of the Global Treaty on Plastic Pollution convened in Nairobi, Kenya, we joined CDP alongside 48 financial institutions in an open letter calling on governments for mandatory disclosure of plastics data, in keeping with our participation in the Business Coalition for a Global Plastics Treaty, which we joined in September 2022. For investors, this call to governments directly supports the assessment and management of portfolios' exposure to biodiversity loss and environmental pollution-related risks by mandating corporate data that is rarely available. In addition, BNP Paribas Asset Management is a participant in the annual CDP Non-Disclosure Campaign, which has incorporated a module on Plastics disclosure since 2022.

# 3Es: Equality

**Promoting a more equitable and sustainable distribution of value to ensure the long-term stability and resilience of societies and ecosystems.**

CASE STUDY

INDIVIDUAL ENGAGEMENT

ESCALATION

## Improving board independence and gender diversity

**CONTEXT:** Improving board diversity is one of the three key goals outlined in our GSS. Diverse boards have been shown to increase the likelihood that companies generate more shareholder value over the long term. Further, greater representation of women on boards helps to open the boardroom to other voices in an increasingly complex and diverse global marketplace and establishes a more equitable tone at the top. As set out in our voting policy, for Europe, North America, Australia, South Africa, and New Zealand, we now expect a minimum threshold of 35% female board membership, and in Latin America, Asia, Middle East, and Africa (excluding South Africa) our threshold is 20%. In each market, we make exceptions where we see meaningful progress.

**OBJECTIVE:** A gradual increase of gender diversity at the board level with the goal of reaching 40% in mature markets by 2025.

**ACTIVITY:** In early 2023, we selected and began engaging with 38 companies whose performance was not in line with our thresholds and to which we had significant financial exposure (13 in Europe, 11 in North America, 14 in APAC). We sent letters outlining our expectations in the first quarter of 2023 and followed up with engagement meetings or exchanges throughout the year.

**OUTCOME:** We had a 29% success rate, with 11 companies adopting changes in line with our expectations, allowing us to support board elections (or at least not sanction directors based on gender diversity). The regions with the highest success rates were Europe (50%), followed by APAC (36%).

In addition, eight companies met one of our policy's exceptions, including by making recent significant progress or committing to meet our expectation. For example, we supported board elections at Stellantis as the company made an official commitment to reach 40% female representation on its board in 2025. In the United States, we made exceptions at Tesla, Salesforce and Sunnova Energy International, where the Chair and/or Lead Independent Director was female.

### Overall results

| Outcome | No. of companies | % | Details |
|---|---|---|---|
| **Positive** | 11 | 29% | The company reached our relevant regional gender diversity threshold and, as a result, we voted in favour of board elections (where no other factors prevented a supportive vote), in line with our voting policy. |
| **Partial** | 8 | 21% | We applied exceptions in line with our voting policy, but the company has not yet reached our gender diversity threshold (exceptions include relative improvement, commitment to reach 40% in 2025, etc.). |
| **Negative** | 19 | 50% | We opposed the election of all male directors, due to a lack of improvement on gender diversity (and in some cases for other reasons, e.g., lack of independence). |

### Geographic split

| | Americas | | Asia-Pacific | | Europe | |
|---|---|---|---|---|---|---|
| Outcome | No. of companies | % | No. of companies | % | No. of companies | % |
| **Positive** | 0 | 0% | 5 | 36% | 6 | 46% |
| **Partial** | 5 | 45% | 1 | 7% | 2 | 15% |
| **Negative** | 6 | 55% | 8 | 57% | 5 | 38% |

The above-mentioned securities are for illustrative purposes only; they are not intended as solicitation of the purchase of such securities, and do not constitute any investment advice or recommendation.

## Engagement examples

### Europe

**ACTIVITY:** We engaged with Vonovia SE in March 2023, as the Supervisory board's female representation had stood at 33% for a few years while the minimum threshold of our voting policy for Germany is now 35%. We explained that we would no longer be able to support male director elections at the 2023 AGM should the gender diversity ratio remain the same.

**OUTCOME:** The company was responsive and confirmed that board elections would aim to reach 50% male to female ratio at the 2023 AGM. We were thus able to vote in favour of most board (re)elections – which were all adopted by shareholders We are satisfied that Vonovia SE's Supervisory board has now reached gender parity.

**ACTIVITY:** We also engaged with Telefonica Deutschland SE, as the Supervisory board's female representation had not increased from 25% for several years. In order for the company to meet our threshold, as the Supervisory board is composed of 50% employee representatives under the principle of codetermination in Germany, it was key to improve gender diversity both of employee representatives and other directors, which for each was two women out of 8 (out of a total of 16 directors).

**OUTCOME:** The company was responsive and agreed to arrange a follow-up meeting, during which we emphasised the need to address female representation both at the 2023 AGM, when employee representative elections were planned, and at the 2024 AGM for other director elections. Eventually, the company successfully nominated three female employee representatives, raising the total share of female directors to 30% (five out of 16). The company's Chair also committed to nominate one new female director at the 2024 AGM, which would raise the total share of female directors to 37.5%, in alignment with our expectations.

### Americas

**ACTIVITY:** We wrote to United Health Group in March 2023 to urge the company to increase the ratio of women to men on its board. The company provided a detailed response noting that when appointing a new independent director, its Governance Committee considers qualified women and racially/ethnically diverse candidates.

**OUTCOME:** The recent appointment of Kristen Gill, an Alphabet executive, brought the percentage of female directors to 33%, an increase of 5% since last year. Further, the lead independent director is female, and the board is 33% racially and ethnically diverse. We therefore supported the director's vote.

### APAC

**ACTIVITY:** We engaged with Meituan in March following our initial outreach via email. The company had no female board member at the time. We shared best practice, our voting policy and our 20% gender diversity expectation for Asia. We also discussed the Hong Kong Stock Exchange's requirement for a minimum of one female board member by 2025.

**OUTCOME:** In June, the company reached out ahead of its AGM to inform us that it was looking to appoint the first female director and was keen to secure our support. We acknowledged the company's progress and did not sanction the company on gender this year via our votes but made clear that female representation of 12% remains below our threshold and that we hope to see continual increases. We reiterated our request that the company set a time-bound target to achieve our regional 20% threshold.

**ACTIVITY:** We have also engaged with Tencent over the last two years, providing the company with our philosophy and voting policy, as the level of female board representation was 13%. In March 2022, Tencent published a commitment to diversity, equity and inclusion, including a commitment of steady progress on diversity at the company and board levels in the coming years.

**OUTCOME:** At the 2023 AGM, female representation had increased to 25%, which allowed us to support the elections. The company has also set a target to further increase the board's female representation to 30% by 2030.

**ACTIVITY:** Following an email exchange with AIA on board gender diversity, we conducted an in-person meeting in 2023 where we discussed increasing the number of female board members, among other ESG topics. AIA's gender diversity was at 18%, below our 20% threshold for the region.

**OUTCOME:** The company shared our feedback with management and has since added two new female directors, taking female board representation to 23%. One of the new female directors also joined the nomination committee.

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### Our engagement on board diversity is bearing fruit

Ahead of the 2023 AGM season, we published a global study of the proportion of women on the boards of the 3,500 companies in which BNPP AM invests with the 17,000 listed companies in the ISS database. The study demonstrates the effectiveness of BNPP AM's voting policy and shareholder dialogue finding that women make up an average of 25% of the boards of the companies in which BNPP AM invests, compared to 18% for the broader universe of listed companies. Regional differences are considerable, however: Europe, South Africa and Australia are the most advanced in terms of board director parity, whereas Asia, South America and the Middle East are less diverse. Company size, country of incorporation and local regulations significantly impact levels of female board membership and are key factors for investors to consider.

### BNPP AM joins new investor initiative in APAC

#### Investors Against Slavery and Trafficking Asia Pacific (IAST APAC)

In 2023, we joined IAST APAC, an investor-led collaborative engagement initiative launched in 2020, to engage with companies in the Asia-Pacific region to promote effective action in finding, fixing and preventing modern slavery in operations and supply chains. It is currently supported by 45 investors with US$ 7.7 trillion in AUM, coordinating policy advocacy and company engagement workstreams.

We joined the company engagement work stream and have participated in capacity building forums since joining. IAST APAC leverages a common framework and encourages companies to proactively search their supply chains for modern slavery risks, fix the issue, and remedy harms to those affected. The initiative also aims to strengthen reporting under relevant disclosure regimes such as the Australian Modern Slavery Act.

CASE STUDY

COLLABORATIVE ENGAGEMENT

## PRI advance: human rights and Occupational Health & Safety (OHS)

**CONTEXT:** In 2023, we joined a coalition of 265 investors representing US$35 trillion through the newly launched PRI Advance collaborative initiative. Under the umbrella of the PRI, this coalition seeks to advance human rights and positive outcomes for people through investor stewardship. It supports investor engagement with 39 corporates from the extractive industries and renewable energy sector, encouraging the implementation of international standards on human rights and social issues, like the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises.

**OBJECTIVE:** As a major player in the steel industry based in Luxembourg, engagement priorities for ArcelorMittal were developed from several sources, including the company's public disclosure, ESG and controversies ratings, benchmark assessments (including the Corporate Human Rights Benchmark updated in November 2023), and press coverage. These focus on human rights protection, occupational health & safety (OHS) performance, and the management of adverse impacts on local communities.

**ACTIVITY:** Since 2023, BNPP AM has co-led the engagement with ArcelorMittal. We had a meeting with the company in November, following written exchanges and previous introductory meetings. OHS performance was at the heart of our dialogue linked to a series of accidents that occurred at ArcelorMittal Termitau in Kazakhstan, with an accident at the Kostenko mine in October 2023 leading to 46 fatalities.

#### Our discussions focused on:

- the governance of sustainability and social risk management;
- the remediation plan following the Kostenko mine accident in Kazakhstan, followed by ArcelorMittal Termitau's sale to the government;
- public responsiveness to serious allegations and accountability, not limited to Kazakhstan (i.e., social controversies in France, Canada, Brazil, Liberia, South Africa, etc.);
- the adoption of responsible targets on OHS performance, alignment of OHS reporting with market disclosure standards, and further linkage with remuneration incentives; and
- the implementation of group-wide policies, programs, and mechanisms to perform effective external stakeholder engagement and protect human rights (e.g., human rights salient risks and impacts assessment, centralised grievance mechanism, respect for indigenous rights).

**OUTCOME:** We have seen some encouraging steps forward, such as the company's decision to start working on the development of a group-wide grievance mechanism by the end of 2024 and the appointment of an external independent auditor to perform a group-wide safety audit following the recent events in Kazakhstan. However, we are still waiting for concrete changes and solutions to be implemented.

# 3 Engagement linked to issuers' ESG performance

## Engagement related to our Responsible Business Conduct (RBC) policy

### In order for us to be able to invest in companies, they must:

- 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 and OECD MNE Guidelines;
- comply with a series of Sector Policies (e.g. coal policies), established to set out the conditions for investing in particularly sensitive sectors;
- maintain good ESG performance to mitigate ESG risks across portfolios.

These requirements are codified with our Responsible Business Conduct (RBC) policy. In relation to our passive investments, where the RBC policy cannot be fully applied, we aim to address ESG risks through active corporate engagement and voting. As a last resort, we may divest entities which do not respond to engagement and show no signs of improving, which are therefore considered as not in line with our RBC. In total in 2023, we engaged with 10 companies spanning all three regions in relation to the following aspects of our RBC policies:

- Agriculture;
- Coal;
- Oil and gas;
- Timber and wood pulp;
- Palm oil;
- Consumer interests.

### Issuer in the Energy sector

In the second half of 2021, we placed this company on our Watchlist. We were concerned about potential breaches of the UN Global Compact's Principle 1 on Human Rights. Our main concern was the company's poor safety performance record with a series of fatal accidents over recent years, which revealed systemic failures in its management of occupational health and safety.

We held several engagement meetings with the company between 2021 and 2023. Although the company was responsive to our dialogue and claimed it intended to reinforce its sustainability strategy, it did not provide sufficient assurance that it was actually implementing adequate corrective measures to prevent further accidents. For example, it did not progress in the adoption of responsible safety targets in line with peer practice.

We therefore concluded that the company was in breach with our RBC policy and excluded it from our portfolios pending significant improvement.

### Issuer in the healthcare sector

This issuer was flagged by our research provider as being involved in recent years in serious product recall controversies.

The second recall appeared to indicate a systemic problem in the company's safety testing and risk management practices and led to a substantial fall in its market value. Regulators in major markets were investigating deaths allegedly linked to product use and are likely to bring charges if the company is found liable for these deaths. Investigators found inadequate risk analysis procedures, including a lack of robust internal investigations, health hazard evaluations and product design reviews. The company had already made several large financial settlements and additional provisions to cover potential future settlements and/or fines and other costs.

We had a call with the company in September 2023 to better understand the actions it had taken since the recalls. While it seemed to have shown appropriate urgency and mounted a comprehensive response under the leadership of the new CEO, its progress in replacing the devices had been slower than originally anticipated. The company provides regular public updates and was responsive to our request for engagement, providing further requested information after the meeting. However, the results of the pending investigations and any associated lawsuits could have significant financial and reputational impacts and additional lawsuits may emerge in other markets.

While the engagement and progress were positive, we continue to monitor developments in the legal proceedings and whether regulators deem the company's new quality testing regimes acceptable.

# VOTING AND ENGAGEMENT

## Engagement with companies with low ESG ratings

As outlined in our ESG Integration Guidelines, for active portfolios we avoid investing in companies with low ESG ratings generated using our internal ESG scoring framework, without documenting the risks and/or engaging or planning to actively engage with such companies. Our Sustainability Centre and investment teams implement this process together.

It also involves escalation measures for companies that are not responsive to our engagement and/or do not sufficiently improve their performance over time. We may also vote against or abstain on key resolutions on the agenda of companies' annual general meetings, as available and appropriate. We may also address a lack of response or action via investment decisions, like reducing our holding in such companies or complete divestment.

**In 2023, 36 new companies were included in this programme, while engagement that was initiated in 2022 continued with others.**
Of the 36, investment teams completed qualitative assessments for 22 of them. For the other 14, a request was made for dialogue to discuss the apparent weaknesses in these companies' ESG disclosure and practices. Follow-up exchanges are expected to take place in 2024 and future revisions of ESG scores later that year will reveal whether our efforts contributed to improving their assessment.

## Engagement with fixed income asset issuers

We continued our active engagement with bond issuers, which we view as an important part of our stewardship activity. We continued to strengthen and apply our frameworks for assessing green, social and sustainability bonds, which provide the basis for our engagement with issuers of those bonds.

### Engagement with corporate bond issuers

Our fixed income teams engage with issuers of various types of corporate bonds as part of their investment and portfolio monitoring processes. The global corporate credits team joins Q&A sessions with loan issuers and arranging banks to carry out due diligence of various aspects of the credit and to negotiate financial and legal loans transaction documents (term-sheet and SFA key terms).

In respect of European high-yield bonds, investments in the funds are constantly re-evaluated and monitored; ad hoc interactions occur with management when warranted, as well as one-to-one meetings with management during conferences.

We outlined on page 43 how ESG ratings are integrated into fixed income instrument selection and how our ESG Research team assign the ESG scores to corporate issuers according to our proprietary ESG scoring methodology for corporates. In addition, each year or prior to initial investment, the credit analysts within our ESG private assets teams, where an ESG rating is not available (most typically for middle-market sized issuers), ask the issuer to complete an ESG questionnaire. The Sustainability Centre uses that information to maintain the ESG score, which feeds into fund construction.

### Engagement related to Green, Social and Sustainability (GSS) bonds issuance

We seek to engage with issuers in both developed and developing markets, as well as with multilateral agencies. We engage on a one-to-one basis and join roadshows where issuers present to multiple investors at the same time. The thematic bond engagements take place both at the ex-ante stage, i.e., at the time of issuance of GSS bonds, framework details discussions, as well as at the ex-post step, i.e., 12 – 24 months after bond issuance to find out about reporting commitments and the timeline for an impact report publication. If there is no response from issuers, we exclude the GSS bonds from the investment universe.

### Engagement with corporate issuers

During 2023, our bond specialists within the ESG research team had 40 interactions in relation to thematic bond issuances. Of those, 27 were within developed markets, 13 with emerging markets.

We aim to participate in ex-ante investor meetings with thematic bond issuers either via the roadshow related to a specific issuance or 'non-deal roadshows' where issuers sound out investors' comments or expectations. Some of those engagements were ex-post to discuss issuers' impact reporting commitments, metrics and methodologies used to calculate those metrics demonstrating the positive impact issuers try to achieve through the Use of Proceeds.

### Our engagement typically focuses on:

- **information discovery** – gathering information that is not expressed in documentation that can help us form a more complete assessment of the proposed thematic bond;
- **encouraging improvements in the structure of the thematic bond** that could lead to 'greener' assets selected, or 'less desirable' assets dropped from the eligible portfolio;
- **pressing companies to be transparent** about the use of proceeds and positive impacts generated by the bonds.

The above-mentioned securities are for illustrative purposes only; they are not intended as solicitation of the purchase of such securities, and do not constitute any investment advice or recommendation.

## Global port terminal operator (emerging markets)

We engaged with a green bond issuer that is a global port terminal operator with operations in many markets globally. At that time, the issuer was a debut green bond issuer; hence we wanted to understand its green bond framework, the projects and how the issuer approaches sustainability in its operations. The issuer explained that about three quarters of the proceeds will finance the electrification of its port operations – which includes electrifying the cranes, forklifts and heavy vehicles. It will also use some proceeds in R&D of hybrid vessels where the vessels use a blend of crude diesel and fuel made from waste feedstock. We believe these projects are best practice in the port terminal industry. The projects are also in line with the issuer's decarbonisation strategy (started in 2019) that includes renewable energy supply, low carbon fuels, and electrification.

## Pension investment manager (developed markets)

We engaged with a green bond issuer that is a pension investment manager. The issuer invests the capital provided by its pension members. We had reviewed the ex-post report on its outstanding green bonds which we had previously invested in. The report did not provide sufficient information about the types of renewable energy technologies financed and also did not provide sufficient clarity about the forestry assets it invested in using the proceeds of the bond. We also wanted to understand their climate strategy and targets which appeared to be very flexible in terms of outcomes.

The issuer explained that the investments (financed by green bond proceeds) it made are highly concentrated in certain companies and therefore it believed it could be commercially sensitive to disclose the type of technologies. However, it confirmed that there were no hydropower-related assets. Regarding forests, the team is proactive in forestry management. The assets have received sustainable practice certifications and the issuer is putting in place a biodiversity programme for the forests it owns. In relation to the climate strategy, the issuer believes that its approach to private assets allows latitude to engage and push for change in the companies it owns. The issuer qualifies certain companies as transition assets and aims to reduce the carbon emission intensity of the portfolio by 20 to 25% in a few years. Overall, we believe that the engagement yielded enough information for us to remain invested in this green bond.

**Xuan Sheng Ou Yong**
Green Bond & ESG Analyst

*"We believe that engagements with thematic bond issuers can help us avoid deals where the projects are not credible, the issuer's strategy is not credible or where there is a high reputation risk for us and for our investors. By engaging with issuers, we get better insights into the what, the why, the how, and the future of these bonds in financing the transition of these issuers."*

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## Engagement with sovereign and sub-sovereign issuers, and agencies

**We also engage in dialogue with sovereign and sub-sovereign bond issuers and agencies about the terms of their bonds and on the countries' policies and frameworks that govern their GSS bond issuances. During 2023 the sustainable finance market saw some sovereign issuers bring new thematic bonds to the market and some sovereigns issue them for the first time.**

### Detailed examples of our sovereign engagements at both ex-ante and ex-post steps include:

**People's Republic of Hungary:** At the issuers' request we met to discuss potential changes/improvements to the Hungarian Sovereign Green Bond Framework published in May 2020 and to hear an update on the government's sustainability strategy. We outlined our expectations of Sovereign Green Bond issuers, such as legal protection of green projects, forward-looking budget projections with green expenditures, updates on the management of the proceeds, and the overall choice of the sustainability-focused projects. Both parties also discussed the ESG-related policies that need further development in Hungary and in the EU.

**Republic of Romania:** At a meeting organised by the Sovereign Debt Institute in London, the head of the Romanian Debt Management Office made a presentation, followed by an open discussion with investors about their forthcoming green bond framework and debut green bond issuance. Our Sovereign ESG Analyst shared an overview of how we assess conventional and thematic bonds at the issuer level on ESG issues, and how the ESG analysts assess and score sovereign green bonds.

**Republic of Turkey:** We participated in a global fixed income (non-deal-specific) roadshow in connection with the country's Sustainable Finance Framework. High-level government officials from the Ministry of Treasury and Finance, Ministry of Environment, Urbanization and Climate Change, and Ministry of Energy and Natural Resources presented the Sustainable Finance Framework and the Second Party Opinion, as well as a broader climate strategy, including a Green Deal action plan, and sustainability-related guidelines. Our ESG analysts explained that BNPP AM's preference is the issuance of separate green and social bonds. (That is in fact what the government did, with the issuance of a Green Bond on 5 April 2023.) We also provided positive feedback about the choice of the Use of Proceeds and the expected allocation of funds with a focus on the Environmental and Sustainable Management of Natural Resources and Land Use, while the majority of the Sovereign issuers focused on the Clean Transportation Use of Proceeds. We welcomed the proposed 72% of the green bond's allocation to new financing.

**Republic of Cyprus:** We participated in a Global Investor Call at which the country's representatives presented its newly established Sustainable Finance Framework. (An inaugural Sustainable Bond was later issued on 3 April 2023.) The issuer explained that the expected allocation focus of the Social Use of Proceeds will be 83.5% to socio-economic advancement and empowerment, including a Female Entrepreneurship Scheme. The green Use of Proceeds has been allocated predominantly to sustainable water and wastewater management, and environmentally sustainable management of living natural resources and land use, unlike other sovereign green and sustainability bonds that focus primarily on clean transportation. The majority of the issuance is expected to be allocated to new financing. We provided positive feedback, particularly welcoming the choice of the Use of Proceeds and the proposed future allocation.

### We also discussed various topics with the following issuers:

**German Finance Agency:** German macroeconomic update, energy strategy, green budget and expenditures, and Use of Proceeds expected allocations and management of the proceeds, both ex-ante and ex-post their green bond issuance.

**European Central Bank, Dutch Central Bank, the Central Bank of Malta, the Bank of Finland and the Bank of France:** Rationale and approach to our Proprietary Sovereign ESG assessment methodology, including particular data sources to calculate the Sovereign Carbon footprint.

**Sweden and the United Kingdom:** Implications of the proposed climate and green policy changes targets and budget plans for existing green bonds. The discussions focused on the issuer-level climate-related risks and net zero goals and commitments of both governments.

**Netherlands:** Pre-issuance assessment and additional Use of Proceeds categories regarding hydrogen and gas.

**Brazil Treasury and the Debt Management Office:** The Sustainability Bond framework, the nature of the Use of Proceeds and the management of the proceeds.

**Malika Takhtayeva**
Sovereign ESG Analyst, Sustainable Fixed Income Lead EMEA

*"Despite the complexity of sovereign engagement, there is a growing recognition that regulators and policymakers are major actors in shaping future sustainable economies as they set the rules that guide and govern companies' behaviour. Therefore, through sovereign engagements we in turn are shaping what we hope will be an enabling policy environment for sovereigns, sub-sovereigns, agencies and corporates together."*

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# COLLABORATIVE SOVEREIGN ENGAGEMENT

**This year we continued to expand our engagement with sovereign issuers through collaborative initiatives. This form of engagement is designed to complement engagement on specific sovereign issuances, to create national or regional policy environments on a range of sustainability issues. This is critical not only to set countries on a path to sustainable and equitable economies, but also critical to create an enabling environment in which companies operate.**

CASE STUDIES

COLLABORATIVE ENGAGEMENT

## PRI collaborative sovereign engagement initiative with the governments of Australia and Japan

### Government of Australia

In 2022, BNPP AM joined the pilot PRI-coordinated Collaborative Sovereign Engagement on Climate Change. We are one of 25 global investors seeking engagement with sovereigns to reduce their exposure to risks associated with a failure to rapidly transition to a net zero global economy including:

- The value of sovereign debt investments;
- The continued competitiveness of national economies and investee companies; and
- Systemic risks through exposure to the global economy.

The participating investors aim to support governments and associated entities, like financial regulators and central banks, to take all possible steps to mitigate climate change risks in line with the Paris Agreement. Australia was selected as the first country for engagement.

During 2023, we participated in calls at the Sovereign and the Sub-sovereign levels. We co-lead the Federal Government Working Group, sit on the engagement advisory committee for this engagement and lead the engagement with the Department of Industry, Science and Research (DISR). With that department, the main topic of the engagement was a consultation paper that DISR has initiated and the collective view of investors on Australia's Future Gas Strategy. Investors also had calls or meetings with the officials from several other entities:

- Australian Office of Financial Management (AOFM) and the Commonwealth Treasury, responsible for developing the nation's green bond framework and preparing for the first issuance of national sovereign green bonds in mid-2024. Here discussions covered sovereign climate risk disclosure following recent steps by the Australian Government to publish more climate change-related information in core economic statements and the settlement of the O'Donnell v Commonwealth case on sovereign bond climate disclosure.
- Treasury Corporation of Victoria, New South Wales Treasury as well as three industry groups (Business Council of Australia, the Australian Industry Group and the Grattan Institute). This was to introduce this engagement initiative to officials and to flag an ongoing interest in Australia's international financing and trade activities as they relate to the net zero transition. Further, the investor group noted their willingness to provide more information, if useful, about investor practice, data needs and metrics on sovereign climate risk, including the ASCOR project, to help inform the Australian Government's approach to trade policy and in developing financing vehicles for international climate development.

### Government of Japan

We used the opportunity of our attendance at the PRI Conference in September in Tokyo to host collaborative engagement meetings with Japan's Ministry of Finance (MOF) and Ministry of Economy, Trade and Industry (METI). Members of the PRI-Coordinated Sovereign Engagement on Climate Change, alongside other interested signatories, PRI staff and organisational partners, met with various officials from the two ministries. We introduced the role of sovereign engagement and shared our in-house assessment process on sovereign ESG performance.

We also discussed Japan's 'Green Transformation' (GX) Transition Policy and the planned issuance of GX Economic Transition Bonds. While at an early stage in its framework development, we urged policymakers to provide further information regarding use of proceeds for the GX climate transition bonds and underlying assumptions used in policy setting to further assist our

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CASE STUDIES

COLLABORATIVE ENGAGEMENT

investment decisions. We noted that activities such as the use and production of ammonia and hydrogen can have a wide range of environmental impacts. Hydrogen produced using electrolysis powered by renewable energy, more commonly known as green hydrogen, will have very positive environmental benefits, but hydrogen produced using methane reforming, or grey hydrogen, will more likely hinder climate mitigation. We explained that it would be highly beneficial for investor decision-making for the GX framework to include detail on the criteria for eligible activities to provide greater confidence about the environmental benefits and avoid the risks of greenwashing.

# Other sovereign engagement

### Forum per la Finanza Sostenibile (ItaSIF) - Sovereign Engagement with the Italian Central Government

In 2021, the Italian Forum per la Finanza Sostenibile, set up a permanent working group to promote various joint initiatives. This year, it launched an engagement initiative with the Italian Central Government focused on Italy's policies on selected key ESG topics. As a member of the Forum, we joined 40 investors in signing the working group's letter in May to the Italian Prime Minister, raising questions about measures to mitigate climate change and effect a just transition, as well as relating to sustainable finance and gender equality.

### Government of Brazil

Along with other members of the Investor Policy Dialogue on Deforestation (IPDD), in May 2023 we met Brazilian government representatives to discuss the Brazil Sustainability Bond Framework and its coherence with the government's climate and biodiversity policies, commitments and targets.

During Climate Week in New York in early September, we also joined a private session with a representative from the U.S. State Department to understand the U.S. Government's response to deforestation and hear a presentation from the Director of the Brazilian Forest Service, the Brazilian Ministry of Environment and Climate Change.

### IIGCC Sovereign Bonds & Country Pathways – Towards greater integration into net zero investment strategies

In the second quarter, we joined the IIGCC's initiative to launch a sovereign bonds and country pathways working group, to reinvigorate efforts to integrate sovereign bonds into net zero investment strategies as they are inextricably linked. Our Sovereign ESG analyst was asked to co-lead the group.

Countries' alignment to net zero at the national level will increasingly influence their sovereign bond ratings via physical and transition risk exposure. Just Transition concerns also create the need for more nuance when investing in sovereign bonds. Therefore, a methodology that evolves from purely qualitative to quantitative recommendations based on countries' net zero alignment is needed.

**The working group aims to:**

- Endorse additional data sources and discuss sovereign disclosure expectations.
- Update and improve methodologies, including targets for portfolio coverage, thresholds for engagement and the setting of portfolio decarbonisation reference targets.
- Provide the foundation for forthcoming sovereign collective engagement efforts.

The above-mentioned securities are for illustrative purposes only; they are not intended as solicitation of the purchase of such securities, and do not constitute any investment advice or recommendation.

# 4 Engagement via impact fund of funds

**CONTEXT:** The BNPP AM Towards Impact Fund 1 invests in funds deploying strategies with strong impact potential and private equity credentials. While these funds allocate capital in potentially impactful sectors across the economy - from healthcare to climate change mitigation solutions and the circular economy - their capacity and expertise in managing Impact and ESG investing factors may however vary greatly.

**OBJECTIVE:** Our objective is to help these funds progress to higher levels of ambition and practice, from the formalisation of intentionality to the implementation of good practices, to guide them towards becoming system change enablers.

**ACTIVITY:** During the year we organised several meetings with each underlying fund in order first, at the pre-investment stage, to evaluate their level of maturity on impact and ESG considerations, then to design customised action plans and, in the longer run, to follow up results and potentially adapt the selected approaches. These meetings can involve the funds' managing partners, investment teams, operational teams, and ESG or impact experts. These discussions are the opportunity to share with them impact tools, frameworks and guidance on how to define and formalise their intentionality, impact objectives, actions that can enhance their additionality and ways of measuring their impact. The exchanges are designed to provide them with guidance on how to integrate their theory of change into their selection process and lead them to properly assessing companies' missions and capture relevant impact metrics.

**OUTCOME:** As a portion of the fund of funds carried interest is related to the improvement of the underlying funds' impact practices, several elements are monitored on a regular basis to assess this aspect. Since inception, the practices of all underlying funds have evolved, several of them having recruited impact specialists, with one even hiring renowned experts, transforming an initially 'impact-friendly' General Partner (GP) into a leading impact investing manager. Funds that didn't use marketplace impact frameworks have now integrated them in their day-to-day investment activity and some GPs which did not label their funds as impact investing strategies are now launching impact successor funds. These new generations of impact strategies are also recognised by the market, with some of these successor funds raising inflows above the symbolic €3 billion threshold. These engagement efforts can take time to materialise but it is clear that as a result, palpable changes are happening in the private equity investing ecosystem.

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# SUSTAINABILITY IN OUR PRODUCT RANGE

# SUSTAINABILITY IN OUR PRODUCT RANGE

**We provide our clients with investment solutions that focus on companies positively contributing to the transition towards a more sustainable economy.**

**In 2023, sustainable finance underwent a period of introspection and growth. While the industry continued to progress in implementing a new regulatory framework, public authorities initiated discussions on its fundamental aspects and proposed amendments. We played an active role in these dialogues, anticipating the transformative impact these new regulations would have on our business and product line.**

We recognise the imperative of reallocating capital on a significant scale to facilitate the transition and safeguard the planet for future generations. However, merely providing investment tools is insufficient; investors must actively choose sustainability-focused products for capital reallocation to occur effectively.

To achieve this, investors must have trust in the credibility and efficacy of the sustainable finance framework. Recognising the pivotal role of a robust regulatory rulebook in fostering market confidence, we have been strong advocates for the implementation and enhancement of such frameworks by public authorities.

In addition to this, our goal is to offer a product range that matches the diversity of our client base. From ESG integration to solutions targeting sustainable investment objectives, we have built a comprehensive range allowing for the construction of diversified and impactful portfolios.

**François Roux**
Co-head of Global Product Strategy

*"In 2023, we achieved a milestone with 90% of our EU open funds classified as Article 8 or 9 under SFDR, reflecting our commitment to sustainability."*

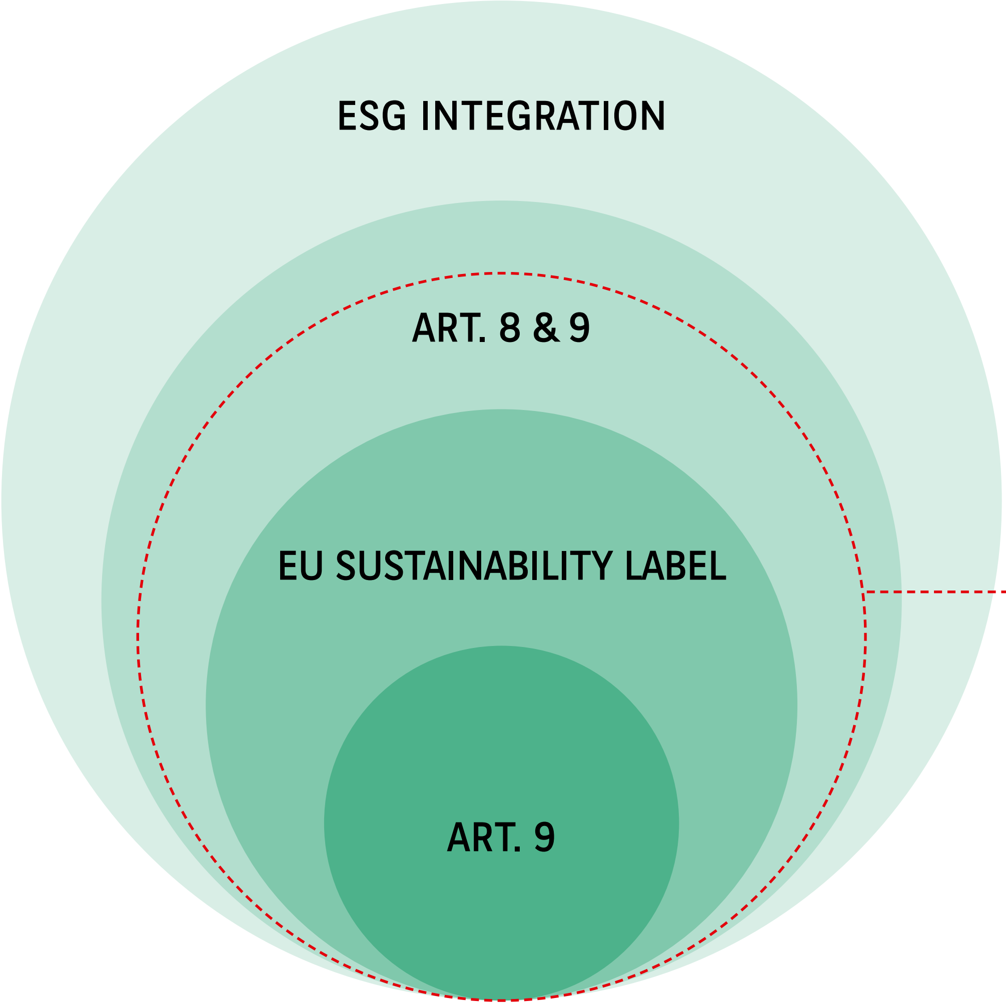
## The BNPP AM product range (all types of products)

**€356.8bn integrating ESG criteria**
Applying a constraint qualifying for Articles 8 & 9 or applying BNPP AM Responsible Business Conduct (exclusion policy).

**€281.5bn Article 8 or 9 under SFDR**
Applying an ESG constraint, resulting in having ESG scoring better-than-benchmark investment universe for example. This constraint is controlled and documented in funds' legal documentation.

**€139.5bn with a European Sustainability label**
Receiving one or several labels, delivered by States or independent organisations, such as 'Label ISR', 'Towards Sustainability', 'LuxFlag', etc. This comes with strict guidelines regularly audited by external parties.

**€20.1bn Article 9 under SFDR**
Having a sustainable investment objective.




Within the €281.5bn of SFDR Articles 8 and 9 (all types of products), the **BNPP AM Articles 8 and 9 open fund range** is strongly positioned on MiFID/IDD Sustainability Preferences:

- €253bn of products taking into account Principal Adverse Impacts in their investment decisions
- €241bn of products committing to a minimum percentage holding of Sustainable Investments (BNPP AM methodology implementing Article 2.17 of SFDR)
- €20bn of products committing to a minimum percentage holding of investments aligned with the European Green Taxonomy

Note: the size of each circle is for illustration purposes only. It is not representative of the related AUM size.

SUSTAINABILITY IN OUR PRODUCT RANGE

# Our positioning

The alignment of BNPP AM's sustainability positioning with market trends has been evident in recent years. Investors have consistently shown a preference for products with more stringent sustainability criteria, a trend that has persisted despite evolving definitions spurred by the European regulatory framework.

This market appetite for sustainability was reflected in 2023, a challenging year for the industry. While the overall market saw modest growth, BNPP AM experienced significant growth in "Article 8+" funds, reinforcing our belief in the importance of pivoting towards sustainability. Our product mix reflects this conviction, with a higher proportion of more sustainable product families compared to the broader market.

HIGHLIGHT

## Planning for SFDR

Our product range continued to undergo a transformation aligned with the SFDR framework in 2023. This involved enhancements in data sourcing, methodological frameworks, and product positioning, along with extensive disclosure and reporting efforts. Some key accomplishments include:

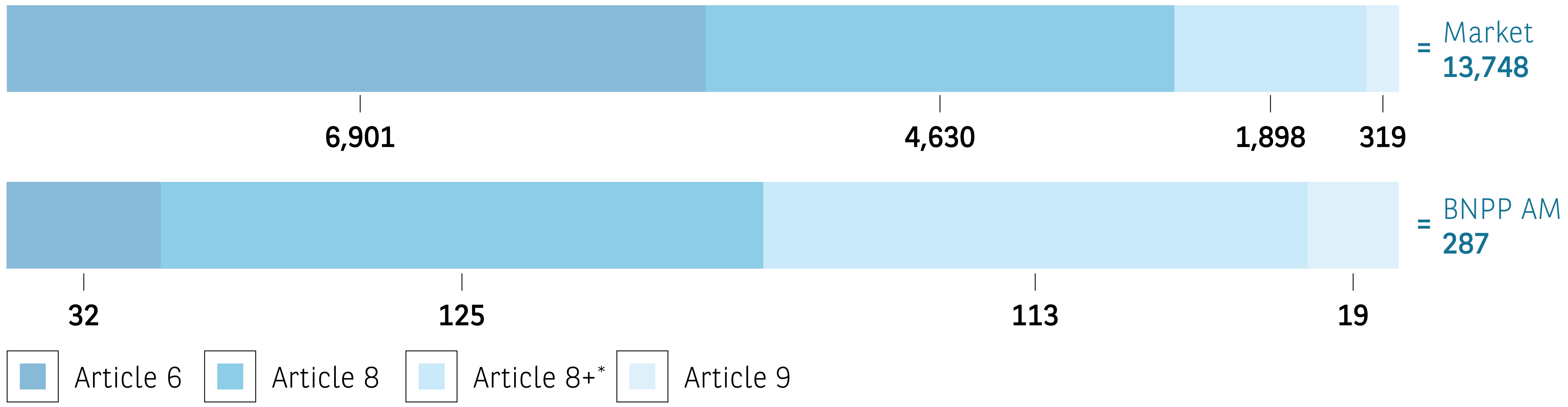
- enhancing our data platform by sourcing new extra-financial indicators and independently selected vendors for each after individual due diligence.
- strengthening our methodological framework and developed internal definitions for SFDR.
- shifting a large part of our product range to SFDR categories and the MiFID/IDD Sustainability preferences.
- building a disclosure factory to power our sustainability ambition and bring more transparency to clients.

**Olivier Paté**
Product Advisor
- Sustainability

*"We have profoundly transformed our capabilities and our product range to provide our clients with a solid product offering contributing to the reallocation of capital towards a more sustainable economy."*

**400+** open European funds classified as Article 8 or 9 and positioned on ESG preferences

**AUM in euros and billion by SFDR categories (according to Morningstar)**




Source: Morningstar data as of end of December 2023.
* Article 8+ corresponds to funds flagged Article 8 under SFDR, and "socially conscious" by Morningstar (i.e. invests according to non-economic guidelines).

# New products

We had a series of product launches in 2023 in the context of rising interest rates and evolving market dynamics. Spanning various asset classes and investment strategies, these launches exemplified our commitment to sustainability as a major European asset manager.

In the fixed income space, we anticipated the growth of fixed income ETFs and introduced three SRI Fossil Free ETFs covering Euro Aggregate bonds, USD Corporate bonds, and Euro Corporate Bonds Ultrashort Duration, along with one ESG EMU Government bonds ETF. Additionally, we expanded our Green Bond range with the launch of a Euro Sovereign Green Bond active fund in the listed active universe.

In the private asset space, we introduced a second European Impact Bonds fund and a Climate Impact Infrastructure Debt fund, both classified as Article 9 under SFDR.

Furthermore, in the multi-asset space, we pioneered the launch of an SFDR Article 9 fund of funds.

We have put a strong focus on thematic bonds, particularly Green Bonds. Leveraging our proprietary methodologies and expertise, we have developed a comprehensive Green Bond-focused SFDR Article 9 product range covering Global Aggregate, Euro Corporate, and Euro Sovereign asset classes.

**Monica Marzinotto**
Private Assets
Product Advisor

*"Looking ahead, we remain committed to exploring nature protection investment solutions in private markets, driven by the growing demand for exposure to nature-positive assets and enhanced active management of nature risks."*

HIGHLIGHT

## Labels are the centrepiece of our product strategy

Sustainability labels play a pivotal role in our sustainable product strategy, serving as a cornerstone for driving change in sustainable finance. These labels are instrumental in aligning investment products with capital allocation objectives and fostering investor confidence.

Over the years, BNPP AM has diligently pursued a labelling strategy, resulting in €139.5 billion of assets across 171 products bearing at least one European sustainability label by the end of 2023.

In 2023, regulatory bodies in France and Belgium conducted comprehensive reviews of their local labels (ISR and Towards Sustainability) following extensive industry consultations. The outcome was the establishment of new, more robust specifications with stricter minimum requirements.

We engaged actively in these discussions and embraced the heightened standards. In a rapidly evolving landscape, tightening criteria was necessary to uphold the credibility of these labels.

While some clarifications may be needed for implementation, the overall direction is clear.

In the absence of a pan-European sustainability label, local labels remain vital credibility instruments for sustainable finance. They continue to form a central element of BNPP AM's product strategy.

**Leila Lhuissier**
Product Advisor
- Sustainability

*"When discussing sustainable labels, it is essential to link precise guidelines and demanding transparency to foster trust in the labels as a whole."*

# Reality check

It is imperative that we redirect capital towards companies driving the transition to a more sustainable economy.

We have undertaken an assessment of our investments to gauge their contribution to this objective. Our approach involves measuring the deviation between our funds' allocations in Sustainable Investments, as defined by SFDR and our proprietary methodology, versus their reference benchmarks. We are pleased to see that across various product families, we observe a more significant overweight in sustainability-focused products, aligning with our expectations.

**Within our open SFDR Articles 8 and 9 funds, totalling assets of €252 billion, the weighted average overweight in Sustainable Investment stands at +15%, equivalent to €36.8 billion in fund assets.** While exact figures may fluctuate with market conditions, we interpret this as evidence of the efficacy of our product strategies and alignment with the goal of reallocating private capital to foster a more sustainable economy.

The effectiveness of the BNPP AM approach is evidenced by the contribution of its product categories to the overall capital reallocation objective.

## BNPP AM approach (for open Articles 8 and 9 products with a relevant benchmark or investment universe)*

### Article 9
**€19bn**

- **Only invest in Sustainable Investments****
- **The most significant positive contribution to sustainability objectives** while mitigating negative externalities
- An average of **54 percentage points more sustainable investments than their benchmarks** (scope 99% of total open Article 9 assets)

### Article 8 labelled
**€116bn**

- **Higher sustainability criteria compared to Article 8**
- A **substantial positive contribution on sustainability objectives** while mitigating negative externalities
- An average of **15 percentage points more sustainable investments than their benchmarks** (scope 99% of total open Article 8 labelled assets)

### Standard Article 8
**€120bn**

- **Demanding sustainability** criteria while keeping a broadly diversified portfolio
- **Positive contribution on sustainability objectives**, and mitigate negative externalities
- An average of **8 percentage points more sustainable investments than their benchmarks** (scope 98% of total open standard Article 8 assets)

### ESG integration
**€27bn**

BNPP AM applies minimum ESG standards by default across its own range to manage sustainability-related risks. Article 6 funds are regularly reviewed to assess feasibility to change to Article 8 and question the long-term suitability of the strategy within our range.

**Pierre Moulin**
Executive Committee Member and Global Head of Products and Strategic Marketing

*"We are proud to contribute to effective capital reallocation, tilting more investments towards the transition. Thanks to the assets we manage for our clients, we are able to do it at scale: we allocate €36.8bn more to sustainable investment compared to broad market indices."*

*The scope of calculation excludes funds with no benchmark.
**Except for special-purpose investments such as liquidity and hedging (EC Q&A of July 2021).

SUSTAINABILITY IN OUR PRODUCT RANGE

# Solidarity investments: two new partners to support the social and solidarity economy

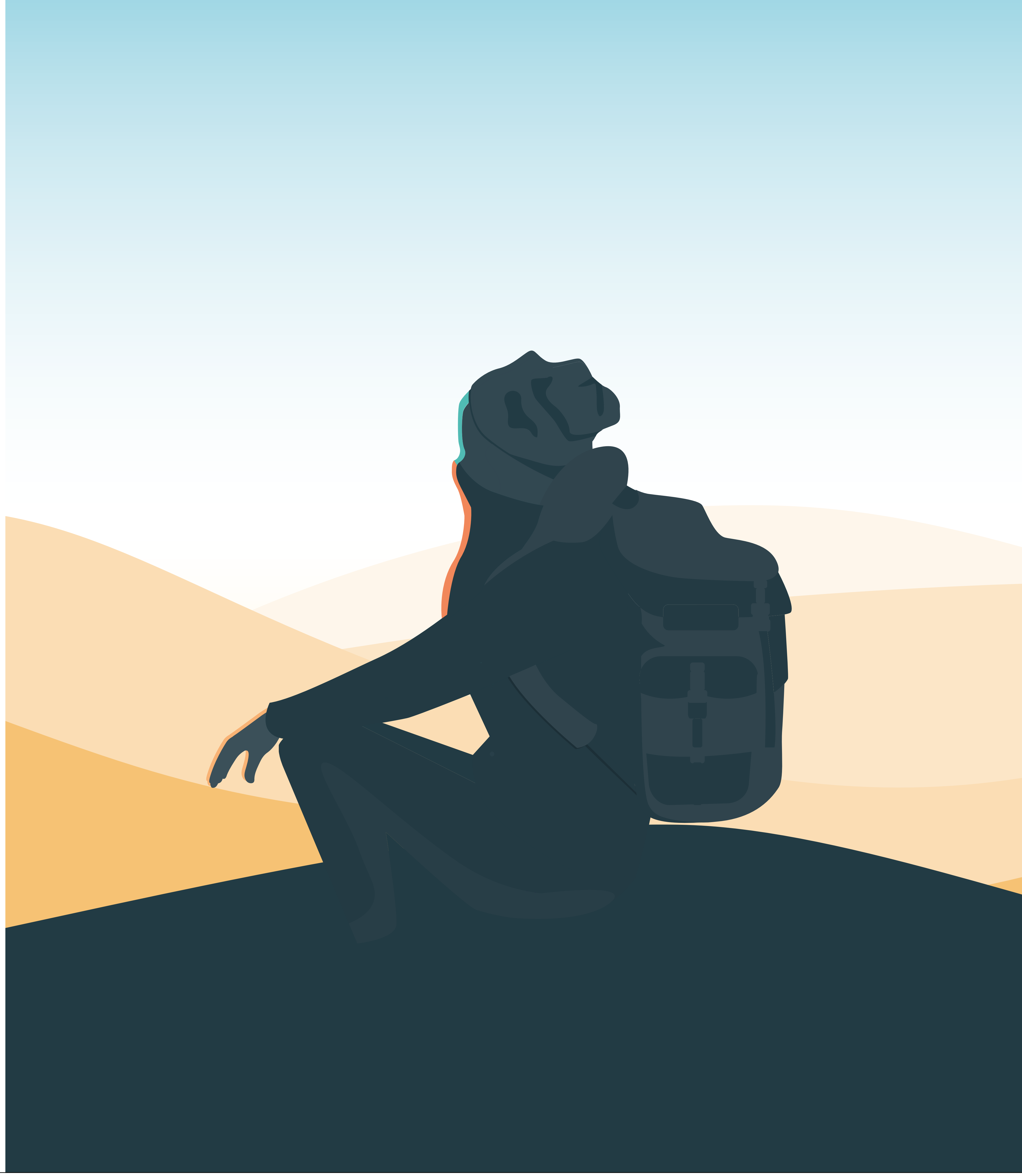
We manage multiple solidarity employee savings funds, where 90% of the assets are invested in equities and bonds according to ESG criteria. The remaining 5% to 10% of the assets of these funds are invested in the social and solidarity economy: we have team a of dedicated analysts who make direct investments in charities, cooperatives and solidarity businesses in France.

In 2023, our team made an additional €27.8 million in investments in seven existing partners and two brand new partners, bringing our total investments in the social and solidarity economy to €171 million across 30 investees.

**Groupe Vitamine T**, helps people who are hard to employ find good paying jobs and our investment in them will help them to accelerate their mission while decarbonising their business. Our second new investment was in **Urbilog**, an organisation focused on making the digital more accessible to people with disabilities. Our investment will help them to develop their digital accessibility consulting and IT services activities and broaden their inclusion policy to include diversity and disability.

**€171 million**
invested in the social and solidarity economy

**30**
social and solidarity economy investees



# CORPORATE SOCIAL RESPONSIBILITY

# OUR CORPORATE SOCIAL RESPONSIBILITY APPROACH

**Walking the talk is critical to achieving excellence. As a sustainable asset manager, our corporate practices and disclosures should match or exceed the standards we expect from the entities in which we invest. To achieve this, we have a four-pronged approach to integrating sustainability into our operations and as an employer: decreasing our operational $CO_2$ emissions, reducing our waste to landfill, achieving a more gender-balanced and diverse workforce, and focusing our community initiatives on youth inclusion.**

## Reducing the environmental impact of our operations

We have committed to aligning our investment portfolios to a trajectory in line with the objectives of the Paris Agreement, and we plan to do the same with our operational emissions. This commitment has also been included as one of the 10 commitments we have made in our Net Zero Roadmap. Our building energy use, business travel and paper use were down significantly in 2020 and 2021 due to the pandemic, and we have continued some of our new habits into 2022, helping to keep our emissions in line.
The BNP Paribas Group has established a new target for greenhouse gas emissions of 1.85 $tCO_2e$ per employee by 2025.

**We use three approaches to achieve this goal, in order of priority:**

### Increase the efficiency of our operations

- Nearly all our office spaces are in green certified buildings.
- The Group's data centres in France were all ISO 50001 certified in 2023.

### Buy green or low-carbon electricity

- The majority of our employees work from offices that are powered by green or low-carbon electricity.
- In late 2023, the Group entered into a 10-year Corporate Power Purchase Agreement, allowing it to source 25% of its annual electricity needs in France from 12 photovoltaic farms in EDF Renouvelables' power portfolio.

### Offset any residual emissions

- The Group has been offsetting any remaining emissions associated with our office space and business travel since 2017, through the following projects in 2023:
  - > in Kenya, the Kasigau project is a programme to preserve and restore 200,000 hectares of forest. Led by the NGO WildLife Works, it also finances access to healthcare, water and education for local populations;
  - > in India, the project is based on a ten-year voluntary carbon offset programme as part of a partnership between BNP Paribas and the GoodPlanet Foundation, via the construction of 13,000 biodigesters;
  - > in Guatemala, hundreds of landowners including local communities have come together to protect nearly 60,000 hectares of forest;
  - > in Peru, a programme to deploy improved woodburning stoves in several regions of the country, which reduces the amount of wood used and reduces carbon emissions while removing noxious smoke from homes.

### Sustainable mobility

**We have spent the last few years building out our programs to encourage our employees to commute more sustainably to the office.
At our offices in France and in Belgium, which combined represent over half of our workforce, we have a number of options in place:**

- Discounted or free transit passes.
- Monetary allowances for commuting to work by bicycle.
- Programs to lease electric and conventional bicycles at preferential rates.
- Bicycle repair service at our office in Paris.
- Free charging stations for electric bicycles and vehicles.
- Where employees have the option to lease a car through work, starting in July 2023, the cars must be electric.

# Mission zero waste

**Recognising the relationship between greenhouse gas emissions and resource management, one of our long-term environmental goals is to eliminate waste to landfill and to help protect the natural environment around us and halt biodiversity loss. We do this in a number of ways:**

- In 2023, we offered gardening workshops to our employees on the grounds of our head office in the region of Paris. The purpose of these workshops was to teach employees useful skills while imparting important knowledge on how to reinforce biodiversity in urban settings. Employees planted, maintained and harvested more than 60 varieties of vegetables, flowers, fruits and herbs throughout the year. These actions complement the beehives we host on the roof of our office and the honey we collect from them.
- A number of our employees have participated in half-day workshops (or '*fresques*') on biodiversity and the circular economy. The biodiversity workshop walks participants through biodiversity issues and pressures based on the IPBES report.
- We hosted a global learning session in partnership with the CDP on Nature and Biodiversity to help our employees decipher the difference between the two and why we must act urgently on these topics.
- Our Hong Kong office continued their Green Monday lunch and learn series with a session by a professor from the University of Hong Kong on plastic pollution and how we can change our individual behaviours to reduce our impact.
- Employees from our London office participated in a Thames River clean up, helping to improve the river not only for wildlife, but also for people. During these clean ups, employees learn about how detrimental plastic pollution is to the waterways and those that depend on them.

# GreenIT@AM

With the increasing digitalisation of our activities, IT has taken an important place in our daily lives at the cost of ever-increasing energy demand. As well, beyond IT's role in contributing to climate change, the production and disposal of digital equipment is associated with harmful impacts on the environment that we can no longer ignore. We currently have a number of initiatives in place to reduce the environmental impact of our IT operation, including:

- Closing old data centres and data rooms and streamlining them into state-of-the-art facilities with improved cooling technologies that reduce the use of primary resources by up to 50%.
- Engaging and working with our top 25 IT suppliers to communicate our environmental goals and update contracts accordingly. We purchased some new IT equipment when relocating our head office and we made sure that this equipment was more energy efficient.
- Rolling out partnerships such as BNP Paribas 3StepIT, to ensure better reuse and recycling of our old IT equipment. In 2023, 3StepIT repurposed 791 pieces of equipment on our behalf and recycled another 76 pieces at certified facilities.

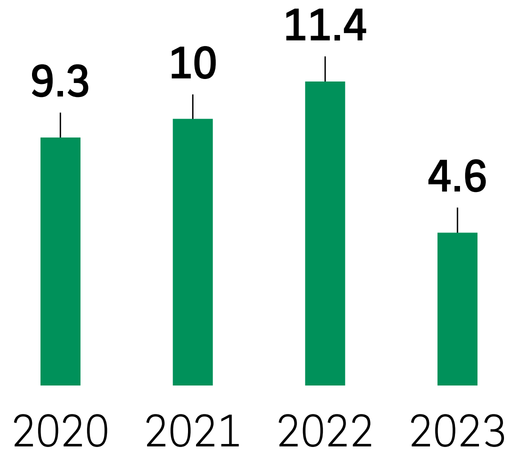
## A first in the French banking sector

In December 2023, BNP Paribas signed a 10-year corporate power purchase agreement with EDF Renouvelables to purchase energy supplied by 12 photovoltaic farms. This energy will **cover 25% of our annual electricity consumption** in France, helping to further lower our operational $CO_2$ emissions.

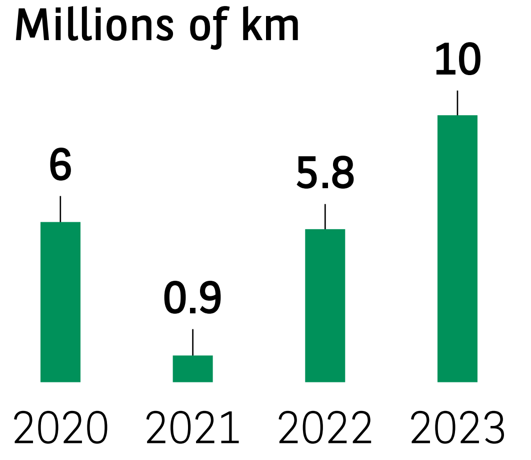
Our total energy consumption has decreased significantly with our ongoing implementation of a flex-office environment, which requires less office space, and moving into office spaces with higher levels of energy efficiency. The most notable changes include moving our Paris head office to a smaller, more energy efficient building, and moving our offices in Belgium to a passive building. In addition to this, we put a plan in place to further reduce the energy consumption of our Paris office by 10%. Combined, these offices represent approximately 50% of our employee base.

However, our employee travel continues to increase and this is offsetting our reductions in energy consumption. Compounding this, we updated our emission factors in 2023 and those related to travel increased, further increasing the negative effect of employee travel on our total emissions.

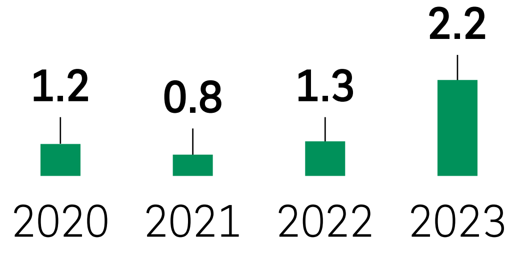
**Energy consumption**
**Millions of kWh**




**Distance travelled**
**Millions of km**




**Greenhouse gas emissions**
**$tCO_2e$ per employee**



# A CULTURE OF DIVERSITY, EQUITY AND INCLUSION

**We believe that Diversity, Equity and Inclusion are not just buzzwords, but are our collective responsibility every day. These principles are levers to unlock our full potential, to contribute to a high-performance work culture and to differentiate us as an outstanding asset manager. We strive for a work ethic based on the principle of opportunity and translate this belief into concrete policies and initiatives that are central to our success and to driving change both internally and externally.**

## Women in the asset management industry

**We operate in a highly competitive market and the demand for talent – specifically mid-level and senior women in fund management positions – is high and increasing. Despite operating in an industry that has traditionally been male-dominated, we've made significant strides in attracting, retaining and promoting women.**

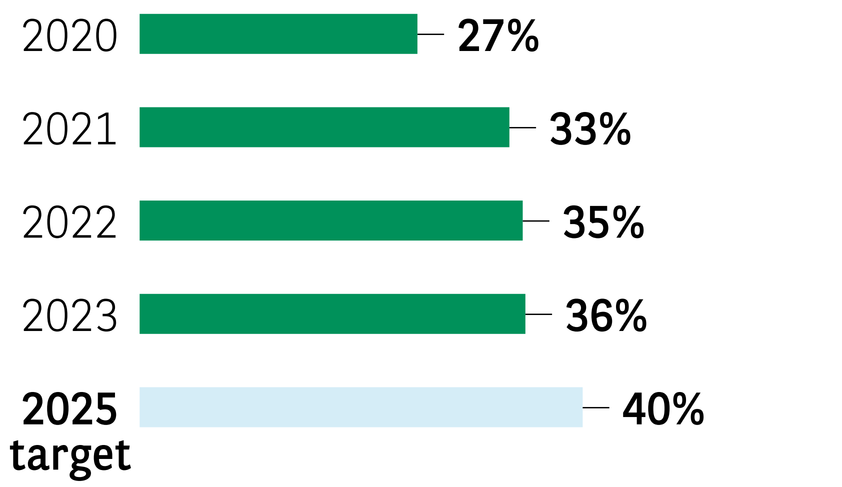
### We have a number of KPIs in place to monitor the advancement of women in our organisation.

- We monitor the number of women we hire, and in 2023, among employees who joined BNPP AM, 47% were women.
- Last year, we made significant progress in hiring talent – our leadership pipeline – into our investment platform as nearly 50% of recruits were women, setting the stage for a more balanced and diverse future.
- An important metric in our industry is women in fund manager roles, and within our organisation, 25% of these roles are occupied by women. While this exceeds the industry average of 12% (Citywire Alpha Female Report 2023), we know we have more work to do and we are committed to doing it.
- We offer leadership development programmes tailored to women to support their career growth, stretch themselves and develop their competencies and abilities so that they can reach senior leadership roles in our company. These include:
  - 'Authentic leading women'
  - 'AMbition to lead' for emerging women talent
  - 'AMazing leaders' for senior managers and experts

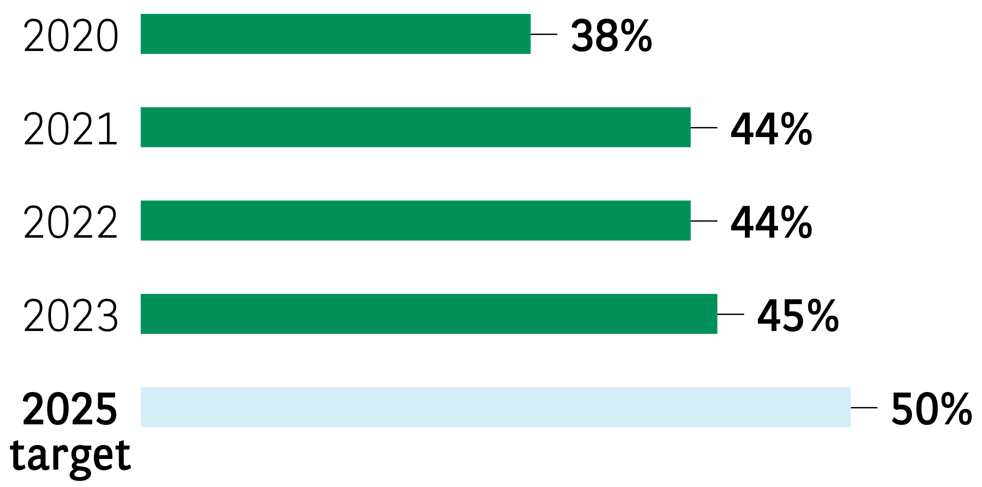
These programmes are complemented by external seminar opportunities and online content via iLearn, our award-winning in-house learning platform.

- All members of our Executive Committee have a Diversity, Equity and Inclusion ambition formalised in their yearly objectives.
- We pay particular attention to gender pay gaps, and on a yearly basis, we conduct detailed studies and put action plans in place.
- We put in place various initiatives to support new parents when they return from parental leave.

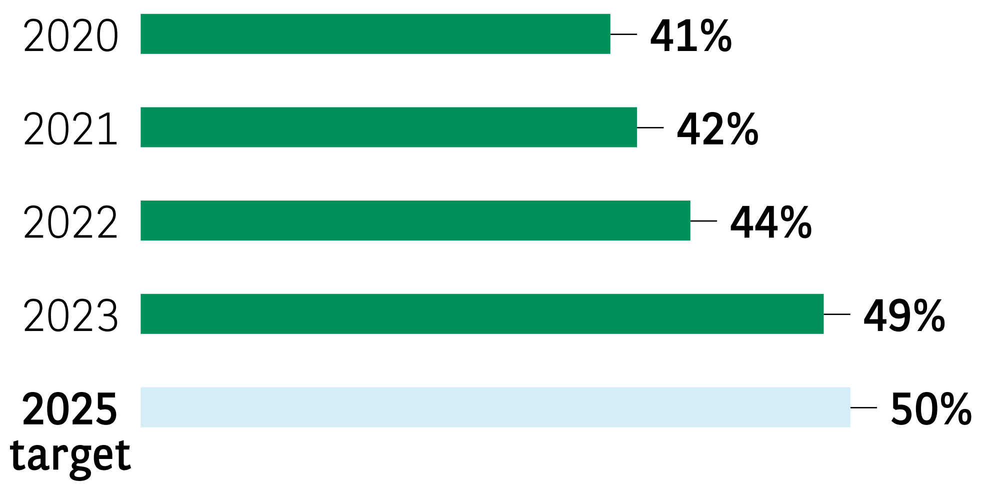
**Women in senior management positions**




**Women on internal boards**




**Women in talent programmes (leadership pipeline)**



# Diversity is the mix, inclusion is making the mix work

**Our people have always come from many different backgrounds and cultures: we are based in 32 countries and our employees are drawn from 68 nationalities. Their countless perspectives and experiences make us stronger and fuel our shared commitment to a better future.**

- In 2023, we continued to educate and enhance awareness on issues of Diversity, Equity and Inclusion through conferences on a variety of topics. We organised five events focused on elements of inclusion which brought together over 1,000 attendees:
  - A session on thriving in a multicultural workplace
  - Two sessions on disability and health
  - An in-person conference on gender identity
  - An interactive theatrical play focused on gender and parenthood
- We hosted a panel discussion with five members of the Executive Committee exploring their vision of inclusive leadership as well as the benefits of embracing vulnerability.
- We celebrated the strength and richness of our multicultural teams with a series of four short, inspiring videos from some of our colleagues who have made significant contributions to our global workforce. Through their experiences, we aim to highlight the diverse perspectives, talents and advantages that multiculturalism brings to our company.
- We supported numerous professional networks that play an active role in promoting Diversity, Equity and Inclusion within the Group, such as All Abroad, Afrinity, CulturALL, Pride@AM, WeGenerations and WeLevelUp. In addition, we sponsored WE@AM, a community of executive women in BNPP AM France, who established this community after sharing a customised learning journey, building a place for self-development and to generate a positive impact on female leadership for the benefit of the firm.

## Helping young people get their start in the UK

**We have launched several initiatives across the globe not only to foster Diversity, Equity and Inclusion in our workplace, but to enhance the opportunities for young people entering the asset management industry. This year, in the UK, we continued a number of programmes:**

- We partnered with Headstart Action for the third year in a row to offer work placements to young people to enhance their employability. We also participated in #10000BlackInterns, a UK-based initiative to address the chronic under-representation of black talent in the industry.
- We participated in the CFA UK Women in Investments programme. Since joining the programme in 2022, we have offered nine internships to young women in our London office.
- We are an active member of the Diversity Project, a widely recognised industry initiative which will further enable us to drive change.
- In 2024, we are participating in #10000AbleInterns, to address the under-representation of disabled talent within UK industries.

# HELPING YOUNG PEOPLE OVERCOME SYSTEMIC BARRIERS TO SUCCESS

Our goal is to help young people facing systemic barriers to success. Concretely, that means helping them gain confidence through mentorships and acquire the vital job experience they need through internships. While our volunteer efforts are wide-ranging, we focus many of them on helping young people. Volunteering also helps each of us develop both professional and personal skills while better connecting us with our colleagues and society. It is a very tangible and meaningful way to have a positive impact on the world around us. That's why we encourage our employees to volunteer at least one day a year during working hours at a community organisation of their choice.

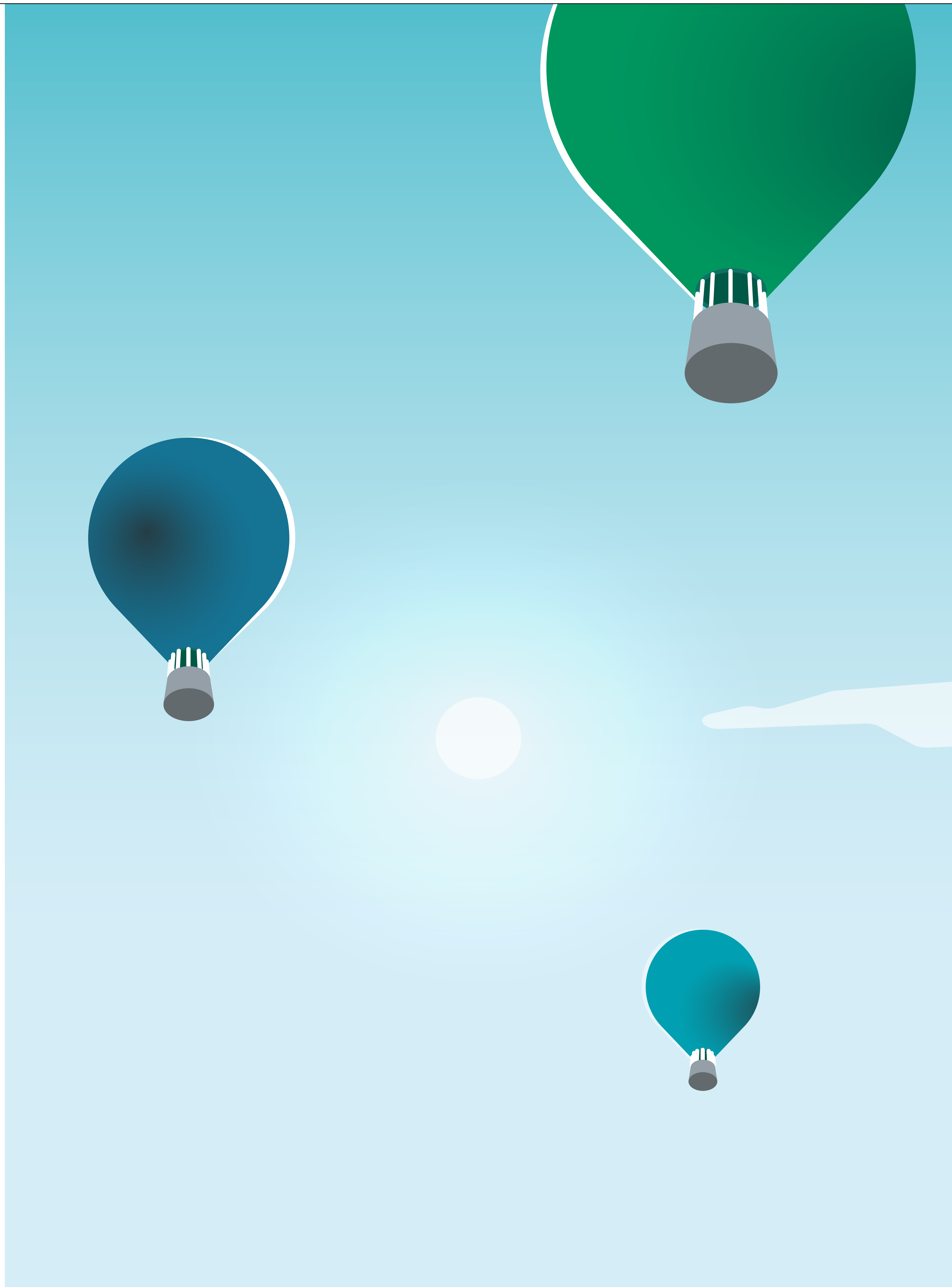
## Our commitment to mentoring young people

**We embarked on an ambitious journey to harness our employees' knowledge and experiences and turn them into mentors for young people. Our goal is to help our employees help young people:**

- We continued our partnership with Chemins d'avenirs, an organisation that facilitates young people's inclusion in rural France and we added another partner, Proxité, for employees that are interested in mentoring young people face-to-face.
- Many of our executive committee members participated in a mentoring session facilitated by Ecole de la 2e chance.
- We hosted a mentoring breakfast for all our employee mentors so that they could share their experiences with our Global Head of HR and our Global Head of Finance, Strategy and Participations, our mentoring champion.
- We had a total of 12 employee mentors in France as of the end of 2023, almost double our 2022 number.

**David Vaillant**
Global Head of Finance, Strategy and Participations

*"Supporting young people over time enables them to gain the confidence and self-esteem they need to succeed in life and we are very pleased to be able to guide them in this reflection. We have long encouraged our employees to volunteer as it is an enriching experience that enables them to broaden their horizons and use their skills in new and unique ways."*



# Volunteering

**Volunteering is not only a great way to give back to the community, but also a way for our employees to learn new skills and spend meaningful time with each other outside of a work environment. Some of our initiatives related to volunteering include:**

- We encourage our employees to volunteer at least one day a year during working hours; in some countries, it can be more.
- We more than tripled the number of hours our employees volunteered in the community, largely in part to a renewed emphasis on volunteering post-Covid and the introduction of Community Impact Week.

In 2023, we launched our inaugural annual global employee volunteer event, Community Impact Week. Over the course of a week in May, more than 850 employees in 19 countries contributed over 3,000 hours of their time to causes that were near and dear to their hearts. In total, we hosted more than 50 community activities that ranged from beach and park clean ups, to work helping at food banks or community homes, to working with young people or people with disabilities.

One of our goals was to encourage employees new to volunteering to participate in the hopes of getting them to build it into their habits. We were pleased to learn that 57% of participants had never volunteered through a work-related event and almost all of them said they would like to do it again. We were very pleased with the outcome of Community Impact Week and we will continue it into 2024.

## Our employees took part in a number of other initiatives throughout the year designed to support young people overcome systemic barriers to success:

- We continued our partnership with the Financial Industry Collective Outreach (FINCO) in **Malaysia** through the FINCO Reads programme, where our employees read to students at a local primary school with the aim of bettering students' proficiency in English.
- Through the BNP Paribas Group's partnership with JINC, we hosted 10 young people from challenging backgrounds or neighbourhoods at our offices in **Amsterdam** in December for a 'flash' internship. These workshops give them a positive example of what you can achieve through education and expose them to people and environments they wouldn't normally encounter in their daily lives. In addition to this, we have employees who act as career coaches to young people just entering post-secondary education, helping bring a different perspective to this important time in these young peoples' lives.
- We brought 40 underprivileged children to newly opened Bird Paradise in **Singapore** for a day of outdoor education to inspire children and to foster a love for the natural environment.
- We partnered with Lingnan University in **Hong Kong** to create the 8-month Future Generations programme to give students insights into working for a global financial institution. The second year we have run this programme, 44 university undergraduates from various faculties participated, throughout which they participated in a series of inspiring workshops and mentorship sessions run by our staff volunteers to discuss topics such as investments, the product life cycle, sales, marketing and many others.
- We have a long term partnership with The Switch, which helps children in the Tower Hamlets neighbourhood of **London** to better prepare for their future. A number of our employees participate in the Writing Partners programme, where they exchange letters with students to help improve their reading and writing and get them curious about work life.
- We partnered with Junior Achievement Indonesia to run a digital literacy mentorship programme for 375 high school and vocational school students throughout **Indonesia**. The programme's goal was to ensure young people have the right skills as the country continues to transform and digitize. During the 6-month programme, participants went from learning basic skills in using the internet, to ethics and security of communicating in cyberspace and personal data protection. Our employees were also actively engaged in the learning process by sharing their knowledge and experiences with the students.
- In **New York**, we participate in the Global Finance Fellowship which offers sophomore-level City University of New York (CUNY) students monthly workshops at our offices, mentorships with our employees, a $1,000 stipend, and opportunities to interview for our Summer Internship Programme. This programme gives local, largely first generation students the building blocks necessary to start a career in finance.

**3,933**

hours volunteered by our employees

**Chris Ouellette**
Head of Corporate Social Responsibility

*"Our company vision is to make a difference to people's lives and ensure the world is a better place for future generations. We do that day in and day out in how we manage our clients' assets. Community Impact Week takes this one step further and helps us "walk the talk": every volunteer act and every hour given back help to build stronger, more resilient communities."*

# MAPPING TO KEY STEWARDSHIP CODES

The purpose of this table is to help readers find the content related to key elements from varying stewardship codes in this document.

| PRINCIPLE | UK | EFAMA | ICGN | HONG KONG | MALAYSIA | JAPAN | PAGE NUMBERS IN THIS REPORT |
|---|---|---|---|---|---|---|---|
| Purpose, strategy and culture | 1 | 1 | 1,6 | - | 5 | 1,2 | 2, 12-14, 16, 108-113 |
| Governance, resources and incentives | 2 | 1 | 1,2,7 | 1 | - | 1,5,7 | 15, 17-20 |
| Conflicts of interest | 3 | 1,5 | 1,5 | 7 | 4 | 2 | 23 |
| Promoting well-functioning markets | 4 | - | 4,6 | - | 5 | - | 26-27, 29-33, 60-61, 74-75, 79-80, 82, 97-99 |
| Review and assurance | 5 | - | 1,2,7 | - | - | 3,7 | 24 |
| Client and beneficiary needs | 6 | 6 | 3,6,7 | 6 | - | 5,6 | 4, 7-8, 21-22 |
| Stewardship, investment and ESG integration | 7 | 1 | 3,6 | - | 5 | 3 | 13, 35-36, 38-41, 43-45, 48-58, 102-106 |
| Monitoring managers and service providers | 8 | 6 | 1,2,5 | - | - | 1,5 | 40-42 |
| Engagement | 9 | 1,2 | 4 | 1,2 | 3,2 | 4 | 60-100 |
| Collaboration | 10 | 4 | 4 | 1,5 | - | 4 | 31-33, 58, 76-82, 85-87, 89-90, 93, 98-99 |
| Escalation | 11 | 3 | 4 | 1,3 | - | 4 | 61-63, 68, 91, 95 |
| Exercising rights and responsibilities | 12 | 1,5,6 | 5,7 | 1,4 | 1,6 | 5,6 | 60-69, 72-73, 91-93 |

# GLOSSARY

**AIF:** Accredited Investment Fiduciary

**AIGCC:** Asia Investor Group on Climate Change

**ATNI:** Access to Nutrition Initiative

**AUM:** Assets under Management

**BBFAW:** Business Benchmark on Farm Animal Welfare

**CISL:** Cambridge's Institute for Sustainable Leadership

**CSR:** Corporate Social Responsibility

**EET:** European ESG Template

**ESG:** Environment, Social, Governance

**ETF:** Exchange Traded Fund

**EU:** European Union

**FAIRR:** Farm Animal Investment Risk and Return Initiative

**FAME:** Financial & Asset Management Expertise

**FAO:** Food and Agriculture Organisation

**FSB:** Financial Stability Board

**GCG:** Global Client Group

**GHG:** Greenhouse gases

**GNI:** Global Network Initiative

**GRASFI:** Global Research Alliance for Sustainable Finance and Investment

**GSS:** Global Sustainability Strategy

**SRI:** Socially Responsible Investment (ISR - *Investissement Socialement Responsable* - in French)

**3Es:** Energy transition, healthy Ecosystems and Equality

**HSR:** Health Star Rating

**IDD:** Insurance Distribution Directive

**IEA:** International Energy Agency

**IIGCC:** Institutional Investor Group on Climate Change

**IIHC:** Investor Initiative on Hazardous Chemicals

**IPCC:** Intergovernmental Panel on Climate Change

**IPR:** Inevitable Policy Response

**IRR:** Internal Rate of Return

**ITR:** Implied Temperature Rise

**IUCN:** International Union for Conservation of Nature

**KPI:** Key Performance Indicator

**MAS:** Monetary Authority of Singapore

**MiFID:** Markets in Financial Instruments Directive

**NDCs:** Nationally Determined Contributions

**NEST:** Network of Experts in Sustainability Transition

**NGO:** Non-Governmental Organisation

**NZAM:** Net Zero Asset Managers

**NZCB:** Net Zero Company Benchmark

**PAI:** Principle Adverse Impact

**PRI:** Principles for Responsible Investment

**QRG:** Quantitative Research Group

**RBC:** Responsible Business Conduct

**SBTi:** Science-Based Targets initiative

**SDGs:** Sustainable Development Goals

**SFDR:** Sustainable Finance Disclosure Regulation

**SRP:** Sustainable Regulation Programme

**TCFD:** Task Force on Climate-related Financial Disclosures

**TNFD:** Task Force on Nature-related Financial Disclosures

**TPI:** Transition Pathway Initiative

**UCITS:** Undertakings for Collective Investments in Transferable Securities

**UNEP FI:** United Nations Environment Programme Finance Initiative

**UNGC:** United Nations Global Compact

**URD:** Universal Registration Document

**VaR:** Value at Risk

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