

LEVELLING UP: OUR ROADMAP ADDRESSING INEQUALITY



OUR EQUALITY ROADMAP SERVES FOUR PURPOSES:

- It articulates our strategy on the third 'E' of our '3Es', complementing our Net Zero Roadmap (Energy transition) and Biodiversity Roadmap (healthy Ecosystems). It strengthens our strategy and commitments on an under-researched and under-funded area of sustainable investing that is growing in importance.
- It outlines why investors should prioritise addressing inequality. It details how inequality is material – presenting both systemic and company-level risks – and links to both social and environmental risks and opportunities.
- It presents a framework for identifying and assessing corporate actions that can impact inequality. It outlines how we use our framework to generate investment ideas, construct portfolios, control for risk, and engage with companies and markets.
- It outlines our 'areas of focus' for strengthening equality across our investments (research, responsible business conduct, ESG integration, products), stewardship, and our own operations.



BNP PARIBAS
ASSET MANAGEMENT

The sustainable
investor for a
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INTRODUCTION

This Equality Roadmap is a strategic initiative by BNP Paribas Asset Management (BNPP AM) aimed at addressing inequality. Unlike climate change, there is no Paris Agreement for inequality. This means stakeholders must take concerted action themselves. The roadmap marks our contribution to that effort.

Inequality, or the inequitable distribution of income, wealth and well-being, has reached a crisis point. The income gap between CEOs and workers, the wealth gap between billionaires and the rest of society, and the lack of health and education access for the least advantaged even in wealthy countries, all point to the growing importance of inequality for society and the economic system we actively participate in.

In this roadmap, we explain how inequality underpins and reinforces social risks, and how it threatens stability, growth, and long-term investment. It details the complexity of inequality in a holistic way and how we seek to address it.

Our focus on inequality is informed by a growing consensus of economists, financial authorities including the US Federal Reserve, and climate experts such as the Intergovernmental Panel on Climate Change (IPCC), among others, on the economic and financial consequences of inequality and the urgent need to tackle it.

As an asset manager, we seek to deliver sustainable long-term returns. By 'sustainable', we mean returns that can be maintained over time, and that are in balance with society and the environment. In our view, inequality is part of the equation.

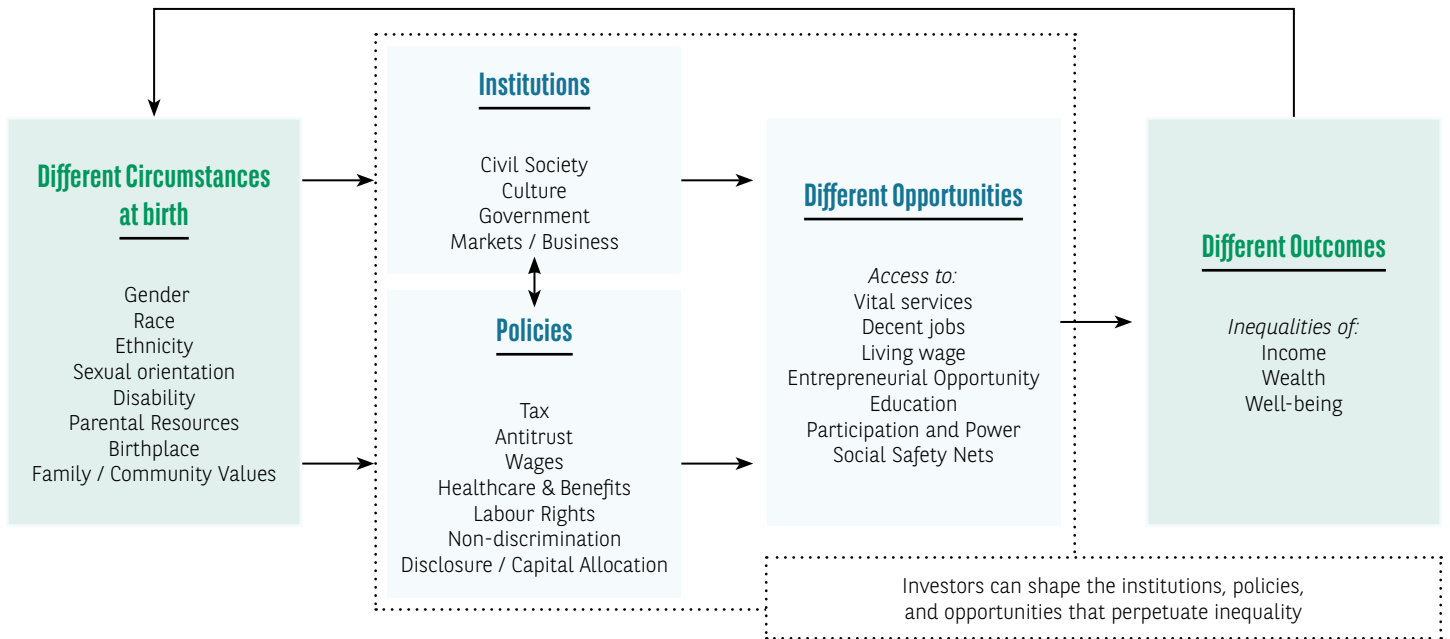
We believe these two interpretations of 'sustainable' are inseparable – we cannot expect to deliver worthwhile returns over time without playing a role in helping to achieve the energy transition, healthy ecosystems for all, and greater equality in our societies. We see these as preconditions for the economy of the future.

DEFINING INEQUALITY

Investors have historically addressed inequality in a piecemeal fashion, taking on working conditions in supplier factories, board diversity, or corporate non-discrimination policies, for example. **Our conviction is that inequality underpins and reinforces many of today's social issues.** Addressing it requires a holistic approach which should enable us to connect issues that were previously siloed and uncover the underlying causes of the problem. **Inequality starts from different circumstances of birth, often amplified by institutions and policies, enabling access to different opportunities, leading to inequitable and unequal outcomes.**

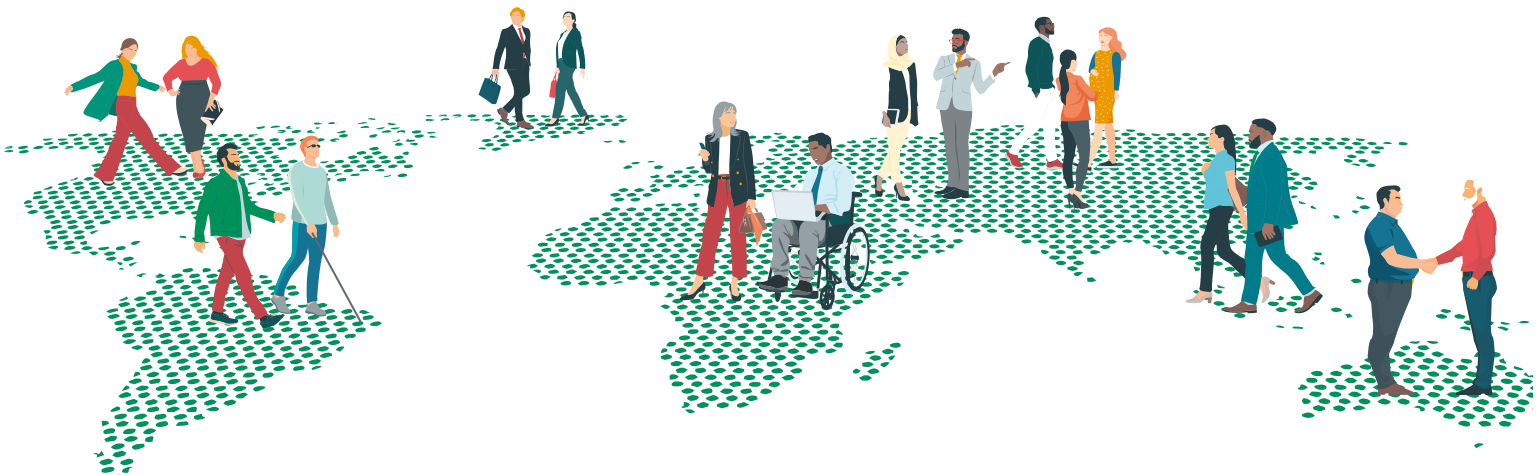
A holistic perspective on inequality

Absent adequate opportunities, inequalities pass down over generations, widening the inequality gap over time

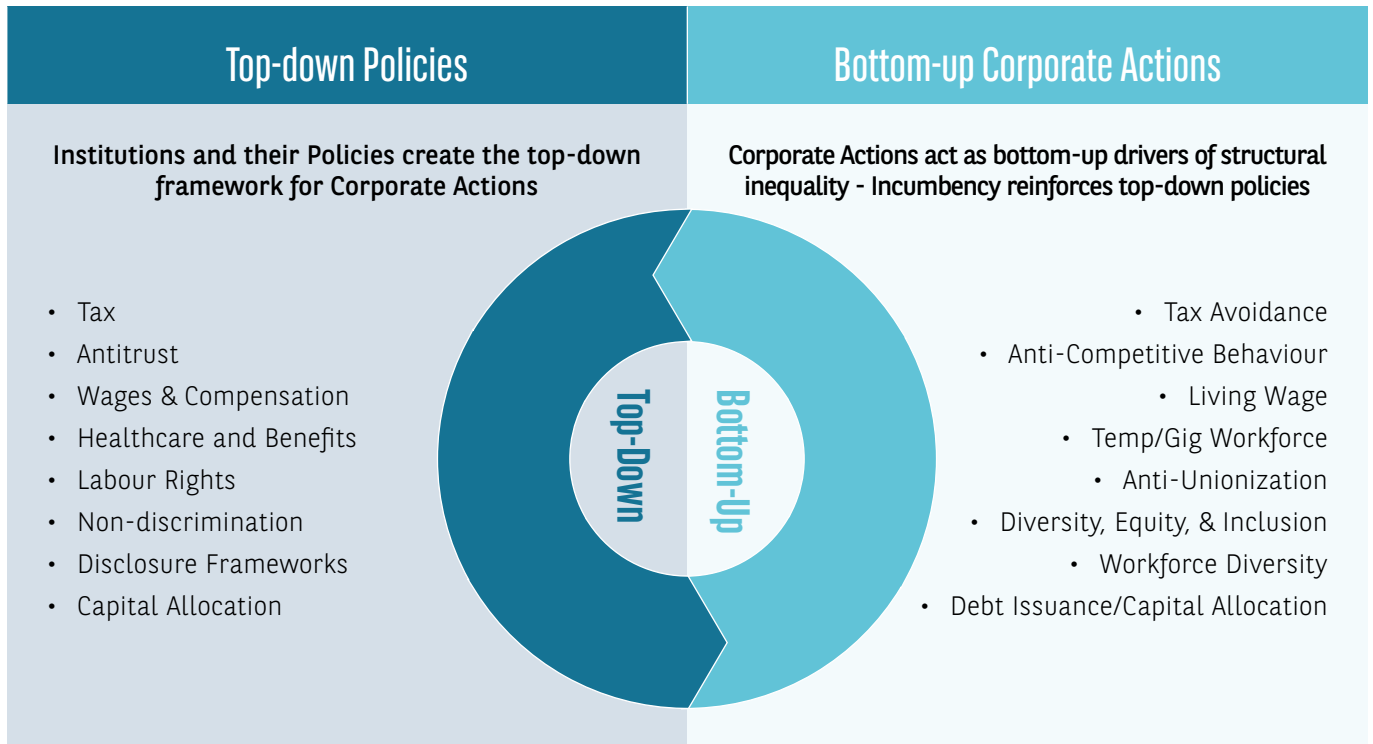


Source: BNP Paribas Asset Management; September 2024

The institutions and policymakers that control **access to opportunities** (e.g., decent jobs, healthcare) are the **drivers of structural inequality** and they are the focus of our strategy. Broadly, these drivers are determined by two camps: policymakers who implement the rules for market conduct (top-down) and private institutions, notably corporations, which generate market activity (bottom-up).



The drivers of inequality – policy frameworks and corporate actions



Source: BNP Paribas Asset Management; September 2024

Inequality has existed throughout history and is in some ways a natural by-product of our economic system. Our goal is not to prevent the occurrence of inequality. Instead, **we seek to address structural inequality** – which persists when circumstances at birth are more determinative of income, wealth, and well-being than individual talent and effort.

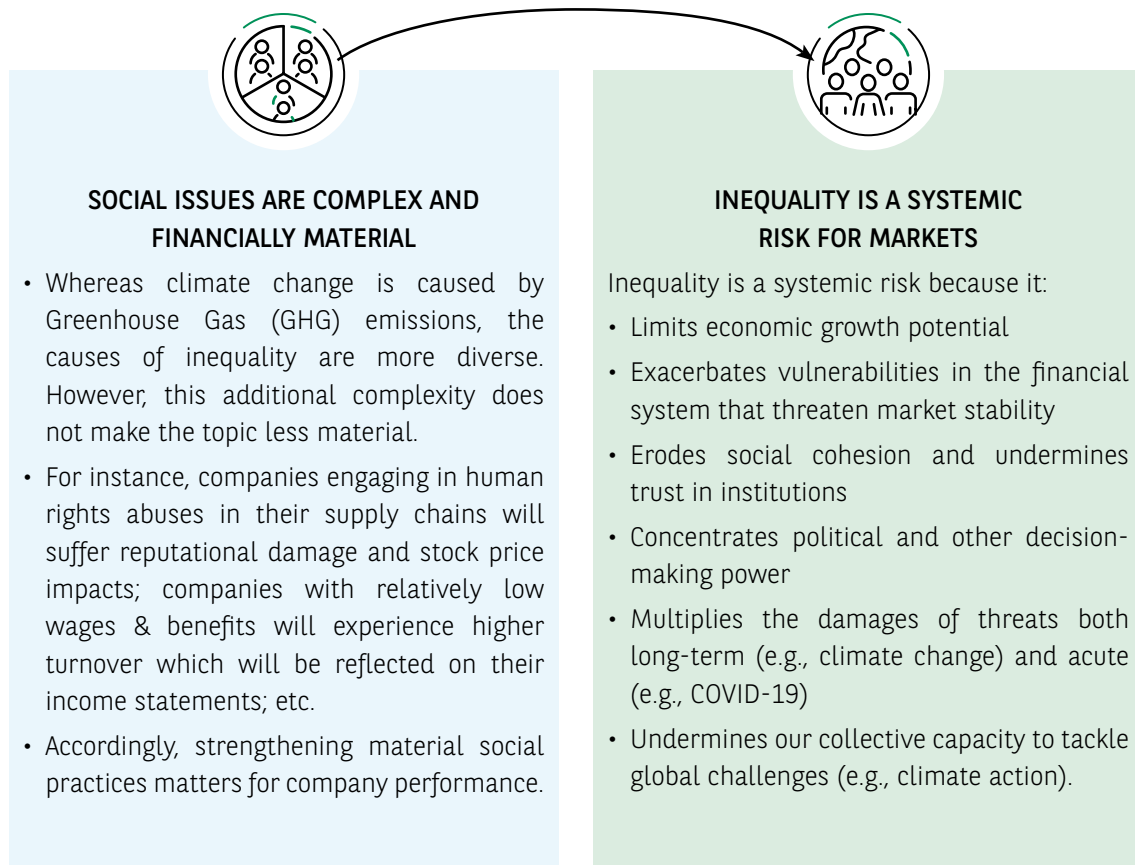
Structural inequality robs us of two necessary preconditions for a healthy society and a stable economy: **equality of opportunity** and **well-functioning social mobility**. However, addressing inequality is not solely a moral concern or a matter of social justice.

Promoting equality of opportunity and improving social mobility strengthens human potential and innovation, promotes social cohesion and inclusion, and fosters trust in public and private institutions – the building blocks of economic growth and market stability.



Inequality is financially material, presenting systemic and company-level risks

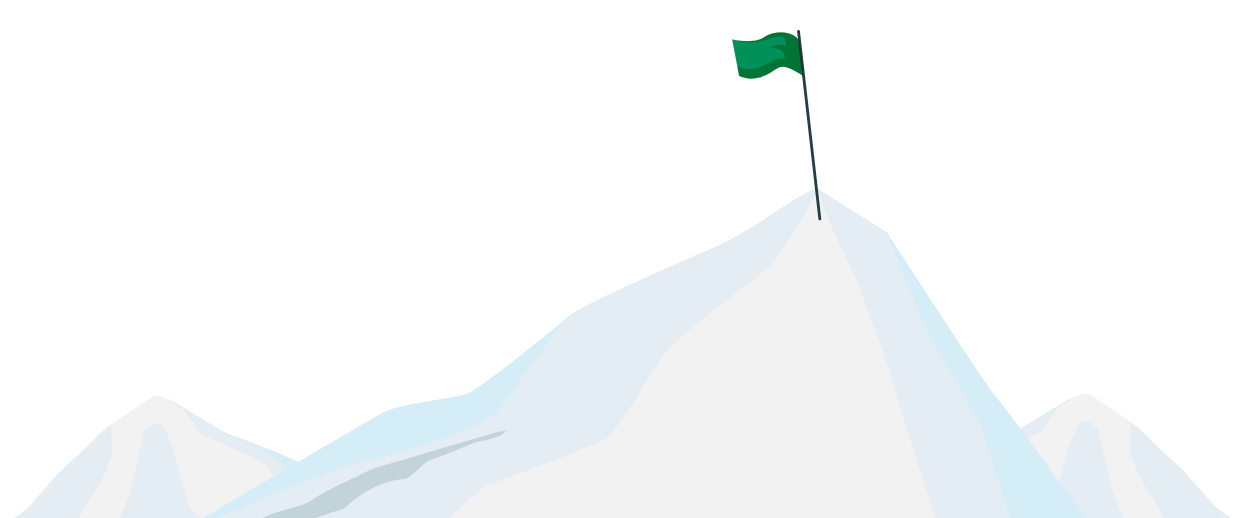
Our conviction is that social issues are financially material, and inequality presents both systemic risks to diversified portfolios and company-level risks to our investees.



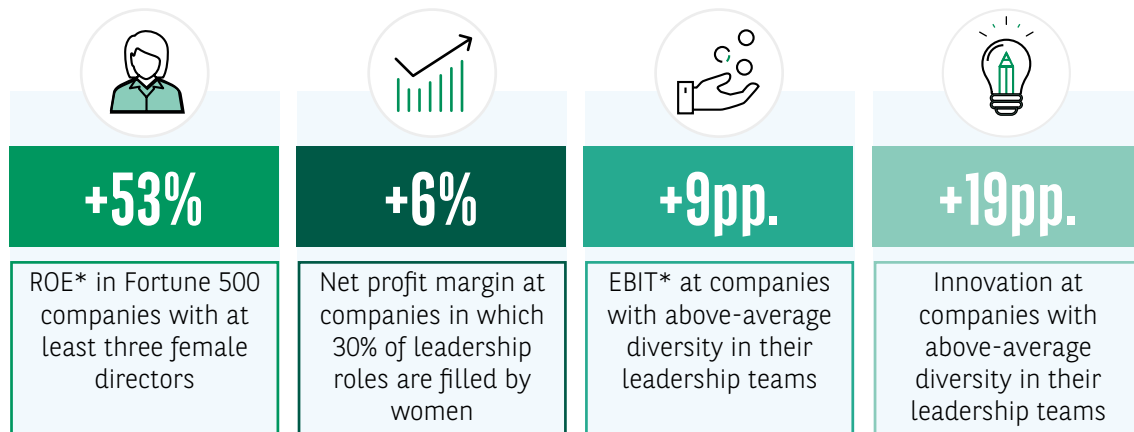
Source: BNP Paribas Asset Management; September 2024

In our roadmap, we provide a deep and wide research base on how inequality presents a systemic risk.

Inequality matters for individual companies too. We believe companies that strengthen equality within their workforce through material benefits (e.g., living wages) and strong values (e.g., diversity) are more **attractive places to work** and should be more likely to **attract talent** in a competitive market.



Companies with greater diversity beat their less-diverse counterparts on a range of measures



*ROE: return on equity; *EBIT: earnings before interest and taxes; source: Facts and figures from Peterson Institute, Catalyst, BCG analysis, 2020

Research suggests high employee satisfaction generate superior long-term returns¹. It increases **employee loyalty and commitment** – critical factors during economic downturns – and reduces staff turnover. It improves resilience to economic shocks.

Gender and other identity-based discrimination impose barriers to entry for entire segments of the population that have unique talents and abilities to offer. It raises **legal and reputational risk** that threatens a company's 'social licence to operate'. Research suggests that when a risk event has a reputational risk impact, the losses can be significant².

A wide body of research suggests **better workplace practices**, including paying improved and living wages and a commitment to diversity, **benefit shareholders**³. Higher wages can boost productivity; a company's financial performance profits from greater diversity (particularly gender) in boards and management teams⁴.

Arguably, **social factors matter** – for companies, shareholders and society.

Addressing inequality also represents an opportunity to increase economic growth, reverse wage stagnation and raise consumer purchasing power, improve market and political stability, enhance social cohesion, and help contain disruptive crises.

Eliminating gender discrimination and investing more in employees has the potential to yield trillions in benefits for global economies. The Business Commission to Tackle Inequality (BCTI), citing a broad evidence base, finds⁵:



1 [Employee Satisfaction and Stock Returns - \(alphaarchitect.com\)](http://alphaarchitect.com)
 2 [climate-change-social-license-to-operate.pdf \(firstsentierinvestors.com\)](https://www.firstsentierinvestors.com/climate-change-social-license-to-operate.pdf)
 3 Emma Harrington and Natalia Emanuel. Working Paper. "The Payoffs of Higher Pay: Elasticities of Productivity and Labor Supply with Respect to Wages".
 4 For example, see: [blackrock.com/corporate/literature/whitepaper/lifting-financial-performance-by-investing-in-women.pdf](https://www.blackrock.com/corporate/literature/whitepaper/lifting-financial-performance-by-investing-in-women.pdf); [institutionalinvestor.com/article/2bwsyjnb6yav80y7nmdc/culture/the-diversity-premium-more-women-higher-returns](https://www.institutionalinvestor.com/article/2bwsyjnb6yav80y7nmdc/culture/the-diversity-premium-more-women-higher-returns); Board gender diversity, firm risk, and the intermediate mechanisms: A meta-analysis - Maxfield - Corporate Governance: An International Review - Wiley Online Library; Diverse investment teams deliver 'truly extraordinary' outperformance – WTW | Pensions & Investments (pionline.com); Diversity wins: How inclusion matters (mckinsey.com); etc.
 5 Business Commission to Tackle Inequality (BCTI). 2022. [Tackling Inequality: The Need and Opportunity for Business Action](https://www.bcti.org.uk/tackling-inequality).

STRENGTHENING OUR STRATEGY AND COMMITMENTS

In this summary⁶, we explain how our Equality Roadmap strengthens our strategy and our commitments to tackle inequality in three areas:

INVESTMENTS

We believe it is important to direct investments towards initiatives that promote equality and social inclusion. This includes projects that support the most vulnerable people and that contribute to a fairer society but also supporting companies that have the best practices related to equality. By prioritising these fields, we aim to have a positive impact on communities and drive systemic change.

STEWARDSHIP

We engage actively with the companies and organisations we invest in to ensure that they are committed to addressing inequality and promoting equality. This includes advocating for fair labour practices, diversity and inclusion, and for employees to be treated even-handedly.

OUR OPERATIONS

We are integrating equality into our own operations by implementing policies and practices that promote diversity and inclusion. We aim to set an example for others and demonstrate our commitment to equality.

BUILDING ON BNPP AM'S GLOBAL SUSTAINABILITY STRATEGY (GSS)

Our Equality Roadmap is categorised based on the six pillars of our GSS. Below, we highlight key aspects of our Equality strategy in these pillars along with our 'Areas of Focus' through 2025 in our investments, stewardship, and operations.

Pillar 1: Our forward-looking perspective: The '3Es'

- The 3Es are interrelated and reinforce one another. Thus, we seek solutions at the intersection of our 3Es, such as the Just Transition, which sits at the nexus of our Energy transition and Equality strategies.
- Our holistic perspective on inequality frames our gender equality approach. We're onboarding new gender representation and pay gap data to strengthen our understanding of gender equality beyond the board room and to evolve our assessment of gender equality performance across sectors and between companies.

Focus area #1: Strengthen our assessments of Just Transition and gender equality performance.

Pillar 2: Responsible Business Conduct (RBC)

- Our RBC policy is an effective tool to reduce inequality in areas such as human rights, labour standards, and anti-corruption by divesting from the worst offenders and engaging when possible.
- We rely on international norms-based frameworks that constantly evolve and are often interpreted differently. This is especially true for social-related frameworks – our goal is to strengthen our collective understanding and enhance our approach where appropriate.

Focus area #2: Conduct internal 'deep dives' covering norms-based frameworks and their evolving applications; enhance our approach on adherence to these frameworks in our investment process.

⁶ The full version is available here: <https://docfinder.bnpparibas-am.com/api/files/0db88173-c83d-43f5-a72e-f9c72ecf3f54>

Pillar 3: Environmental, social & governance (ESG) integration

- Social data is limited by inconsistent disclosure driven by patchwork regulation, limiting investors' ability to identify risks and opportunities. We're onboarding new data that supports stronger assessments of company social performance.

Focus area #3: Integrate new social data to enhance our existing social performance assessments in our investment and engagement processes; incorporate enhanced social indicators into our proprietary ESG Scoring Model.

Pillar 4: Stewardship (voting, engagement, public policy advocacy)

- Our efforts to address inequality through stewardship activity are grounded in the notion that good corporate governance fosters equality and balance.
- We have a very strong record of casting proxy votes in support of greater gender diversity on boards and challenging executive compensation, and also vote for a high percentage of shareholder proposals annually that are focused on reducing inequality.

Focus area #4: Continue addressing inequality drivers through our proxy votes on issues such as board composition and executive compensation. Explore expanding our voting policy to address other aspects of inequality.

Focus area #5: Support shareholder proposals designed to reduce corporate contributions to inequality and/or strengthen equality practices. Explore submitting shareholder proposals on inequality-related topics, where warranted.

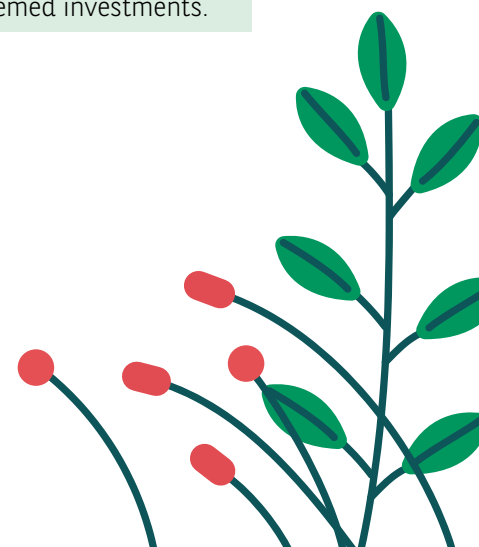
Focus area #6: Expand our engagements on equality priorities tailored according to regional contexts, both directly with issuers as well as through ongoing collaborative initiatives; explore joining new relevant initiatives.

Focus area #7: Seek new opportunities to influence institutions and policies to drive opportunities that will improve inequality outcomes, such as through the development of social taxonomies, disclosure frameworks, and related industry initiatives.

Pillar 5: Sustainability in our product range

- Our industry-leading strategies including our *Social Bond*, *Inclusive Growth*, and *Développement Humain* strategies allocate capital to issuers with strong equality practices.
- Our solidarity investments, including our award-winning Social Business Impact strategy, affirm our commitment to channelling capital to the Social and Solidarity Economy by funding projects that improve access to opportunity and mitigate inequality outcomes.

Focus area #8: Improve existing equality- and social-themed investment strategies by strengthening underlying social indicators and models; increase our social and equality-themed investments.



Pillar 6: CSR – ‘Walking the Talk’

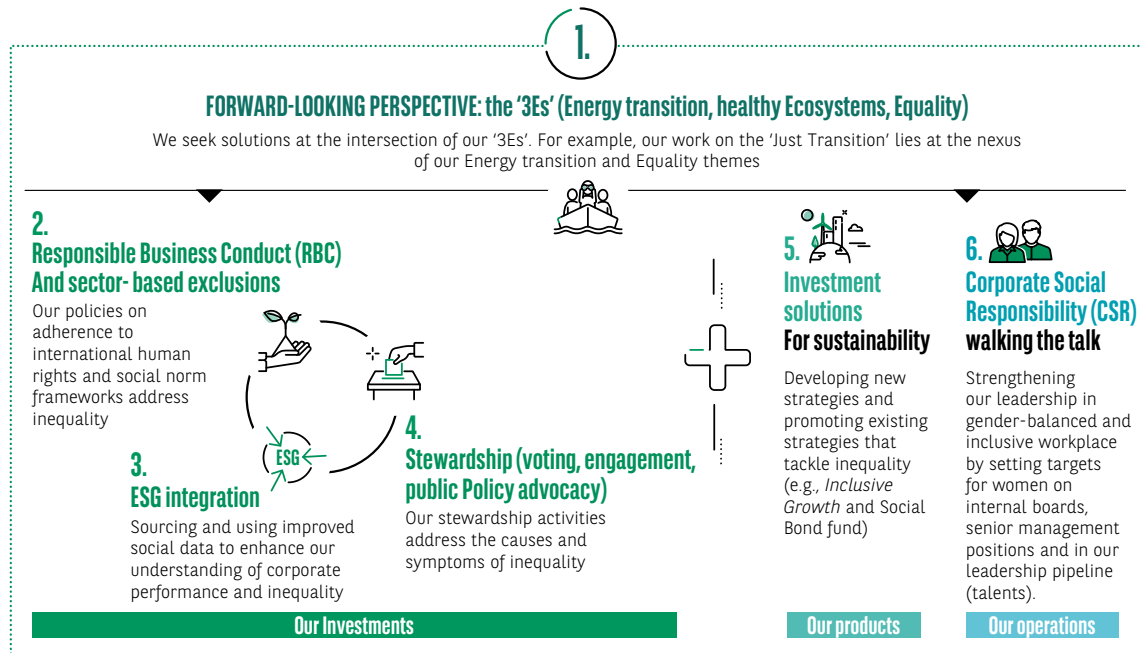
- Our CSR approach, from internal diversity representation ambitions to our choice of charity partners, reflects our holistic perspective on inequality.

Focus area #9: Continue building a more gender-equal workplace by achieving our gender representation targets for women in senior management positions, on internal boards, and in our leadership talent pipeline; leverage strategies for recruiting women into our investment teams.

Focus area #10: Strengthen our programmes that aim to support young people who face systemic barriers to equal opportunity find entry and achieve success in the workforce.

How we address inequality through the six pillars of our GSS

The 6 pillars of our approach



Source: BNP Paribas Asset Management; September 2024



OUR FRAMEWORK FOR IDENTIFYING CORPORATE ACTIONS THAT IMPACT INEQUALITY

Our roadmap introduces a framework to evaluate the impact of corporate actions on inequality for **workers** (both a company’s own workforce and those in the value chain), communities, shareholders, consumers & end-users, and others. We can assess how companies operate, how their governance works, and how ‘social’ their products and services are. We can promote best practices and identify areas for improvement.

Our focus is on **minimising systemic risk** and **identifying idiosyncratic risks** for stakeholders, but also recognising **opportunities** for investment.

Stakeholder groups are identified in line with the European Sustainability Reporting Standards (ESRS) of the Corporate Sustainability Reporting Directive (CSRD). They include: Own Workforce, Workers in the Value Chain, Affected Communities, Consumers & End-Users.⁷ Our framework can help investors shape behaviours that promote equality. As such, it is a valuable tool for investors committed to promoting equality and social inclusion.

Our framework for acting on corporate inequality drivers

Business Function	Select Key Corporate Actions that can Impact Inequality Outcomes (European Sustainability Reporting Standards Stakeholder Group)	
BUSINESS OPERATIONS	OWN WORKFORCE (S1) + WORKERS IN THE VALUE CHAIN (S2) <ul style="list-style-type: none"> • Wages & Compensation • Healthcare and Benefits • Labour Standards & Working Conditions • Terms of Employment • Freedom of Association • Diversity, Equity & Inclusion (DEI) 	AFFECTED COMMUNITIES (S3) <ul style="list-style-type: none"> • Free prior informed consent • Ongoing community engagement
CORPORATE GOVERNANCE & BUSINESS ETHICS	ALL STAKEHOLDERS <ul style="list-style-type: none"> • Board Composition • Executive Pay • Disclosures and Transparency • Human Rights Due Diligence • Capital Allocation • Tax Practices • Political Lobbying • Anti-bribery & Corruption 	
PRODUCTS & SERVICES	CONSUMERS & END-USERS (S4) <ul style="list-style-type: none"> • Access and Affordability • Externalities 	

CLIMATE AND NATURE ACTION CAN IMPACT INEQUALITY OUTCOMES, AND VICE-VERSA

Source: BNP Paribas Asset Management; September 2024

⁷ EFRAG. [European Sustainability Reporting Standards \(ESRS\)](#).



KEY POINTS FOR INVESTORS

Firstly, the roadmap emphasises the urgent need for joint action to address inequality, highlighting that – unlike for climate change – there is no global agreement to tackle this issue and that investors have a role to play in driving meaningful change.

They can do so by **directing funds** towards initiatives that promote equality and social inclusion. We encourage investors to align their investment strategies with these goals to create a positive impact.

Stewardship is another critical area. We call on investors to **actively engage** with investee companies to ensure they are committed to addressing inequality by advocating for fair wages, equal opportunities for all employees, etc. Investors should use their influence to promote these values within the companies they invest in.

Investors should **integrate equality** into their own operations. This includes promoting diversity and inclusion within the organisation.

We believe there is **value** in supporting companies that prioritise these principles as they are likely to be more resilient and innovative. Contributing to a fairer and more inclusive society can enhance long-term returns. Thus, more balanced boards are likely to take more balanced decisions with an eye for longer-term returns.



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VIEWPOINT



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