



# BNPP IP Responsible Investment Policy

April 2014





## Responsible Investment Policy

As a leading global asset manager, BNP Paribas Investment Partner is committed to becoming a Responsible Investor in all aspects of its business.

Because we believe in responsible practices for ourselves but also for entities in which we invest, and consistent with our duty to act in the best long-term interests of our clients, we are committed to incorporating Environmental, Social and Governance (ESG) standards into our investment criteria and ownership practices.

This Policy is consistent with BNP Paribas Investment Partners' adherence to the UN Principles for Responsible Investment (PRI) and BNP Paribas Group's commitment to corporate responsibility and sustainable development.

### 1. Investment Criteria

We are aware that Environmental, Social and Governance issues may impact the value and reputation of entities in which we invest. We are therefore committed to incorporate ESG standards into our investment criteria to the extent that the integration of such factors is consistent with our fiduciary duty to help our clients achieve their investment objectives and protect their interests.

For corporate issuers, these ESG standards are based on the ten principles of the [UN Global Compact](#), which is a shared framework, recognized worldwide and applicable to all industry sectors, based on the international conventions in the areas of human rights, labor standards, environmental stewardship and anti-corruption.

The UN Global Compact Principles are supplemented by investment criteria for controversial sectors and products. These criteria are based on relevant international conventions and regulations, BNP Paribas Group CSR Policies, and voluntary industry standards. In each sector, we highlight mandatory requirements which have to be met for BNPP IP to invest, and evaluation criteria which provide a framework for further contextual analysis and dialogue with companies.

### 2. Ownership Practices

Voting at assembly general meetings is an integral part of our investment responsibilities and a key component of the ongoing dialogue with companies in which we invest on behalf of our clients.

Through exercise of our voting rights, we aim to enhance the long-term value of our shareholdings and to foster corporate governance best practices, social responsibility and environmental stewardship.



The practices which BNP Paribas Investment Partners supports include:

- competence, independence and availability of board members,
- transparency of compensation structures and alignment with long-term company interests
- respect of shareholders' rights, including the « one share - one vote - one dividend » principle and absence of anti-takeover measures,
- timely and accurate disclosure on operating and financial results including material environmental, social and governance issues.

These standards are further supported by a set of voting guidelines. For each voting issue, these guidelines highlight criteria that reflect or tend toward best practice and that we actively support, as well as resolutions that go against shareholder interests and corporate responsibility, and that we are likely to oppose or abstain.

### **3. Implementation Principles**

We are committed to ensure consistent<sup>1</sup> implementation of our Responsible Investment Policy to all open-ended funds managed or delegated by BNP Paribas Investment Partners entities, and, subject to client information or approval where required, segregated accounts and investment mandates.

Management entities over which BNP Paribas Investment Partners or the BNP Paribas Group do not have operational control are invited to adopt and implement this Policy on a best effort basis. External investment managers are actively monitored and encouraged to adopt similar ESG standards.

In applying our Responsible Investment Policy, we take into account specific circumstances as they relate to the governance, social responsibility, and environmental policies and practices of individual issuers. BNP Paribas Investment Partners bases its judgment on data gathered from issuers and third-party research providers, and does its best to gather relevant information. However, it is dependent on the quality, accuracy and up-to-datedness of information collected.

We strive to implement this Policy in the best interest of our clients and operate at arms' length from the BNP Paribas Group and its subsidiaries or affiliate companies.

Our Responsible Investment Policy is publicly available on BNP Paribas Investment Partners' website and is reviewed regularly in order to reflect the evolution of ESG standards and market practices.

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<sup>1</sup> Subject to technical and legal constraints.



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## Appendix 1

### The UN's six Principles for Responsible Investment (PRI)

*The Principles for Responsible Investment commit asset managers and asset owners. They were drawn up in 2006 by an international group of institutional investors to address the growing importance of environmental, social and corporate governance issues for investment practice. This process was instituted by the Secretary General of the United Nations ([www.unpri.org](http://www.unpri.org)).*

“As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognize that applying these Principles may better align investors with broader objectives of society.

- **Principle 1:** We will incorporate ESG issues into investment analysis and decision-making processes.
- **Principle 2:** We will be active owners and incorporate ESG issues into our ownership policies and practices.
- **Principle 3:** We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- **Principle 4:** We will promote acceptance and implementation of the Principles within the investment industry.
- **Principle 5:** We will work together to enhance our effectiveness in implementing the Principles.
- **Principle 6:** We will each report on our activities and progress towards implementing the Principles.

In signing the Principles, we as investors publicly commit to adopt and implement them, where consistent with our fiduciary responsibilities. We also commit to evaluate the effectiveness and improve the content of the Principles over time. We believe this will improve our ability to meet commitments to beneficiaries as well as better align our investment activities with the broader interests of society. We encourage other investors to adopt the Principles”



## APPENDIX 2

### How to Implement ESG standards in Investments

The following principles govern the implementation of ESG Standards in investment processes:

1. Investment universes are periodically screened with a view to identify issuers that are potentially in breach of UN Global Compact Principles and/or mandatory requirements applicable to controversial sectors and products.
2. This assessment is conducted by our SRI/ESG Research Team on the basis of internal analysis and information provided by external experts, and in consultation with BNP Paribas Group CSR Team.
3. As a result from this process, BNPP IP establishes and maintains two lists:
  - an **exclusion list** of issuers that are associated with serious and repeated breaches of UN Global Compact Principles and/or mandatory requirements related to controversial sectors and products.
  - a **watchlist** of issuers that are at risk of breaching ESG standards and with whom we engage in a dialogue in order to encourage improvements.
4. The exclusion and watchlists are communicated by CIOs to investment teams on a regular basis. As a result, investment teams should not initiate *new* investments in excluded companies with immediate effect. *Existing* investments should be divested from relevant portfolios based market conditions but not later than one month after communication by CIOs.
5. The exclusion list applies to all open-ended funds managed by BNP Paribas Investment Partners entities, with the exception of portfolios which replicate the composition of indices (eg ETFs and indexed funds). Exceptions may also be granted in cases where exclusions from actively managed portfolios would result in significant market risk versus the benchmark.
6. The exclusion list applies to all types of securities (equities, bonds, convertible bonds) issued by aforementioned companies, as well as bonds issued by related financial vehicles. It also applies to participation notes and derivatives issued by third-parties on such securities. These restrictions apply to securities negotiated on primary and secondary markets, as well as OTC instruments.
7. Pre-trade and post-trade compliance checks are conducted by Investment Compliance teams to ensure that exclusions lists are implemented by all relevant portfolios.
8. Subject to legal and technical constraints, ESG standards also apply to:
  - segregated accounts and mandates (subject to client information or approval where required);
  - funds delegated to external asset managers (subject to amendment of relevant Investment Management Agreements or Investment Guidelines);
  - evaluation of external asset managers to be included in funds of funds and buy lists



## Appendix 3

### The UN's ten Global Compact Principles

The Global Compact commits corporate leaders to "embrace, promote and ensure compliance with" a set of fundamental values in the area of human rights, labor, the environment and the fight against corruption.

These ten principles are inspired by the Universal Declaration of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption.

#### HUMAN RIGHTS

- **Principle 1:** Businesses should support and respect the protection of internationally proclaimed human rights; and
- **Principle 2:** make sure that they are not complicit in human rights abuses.

#### LABOUR STANDARDS

- **Principle 3:** Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- **Principle 4:** the elimination of all forms of forced and compulsory labor;
- **Principle 5:** the effective abolition of child labor; and
- **Principle 6:** the elimination of discrimination in respect of employment and occupation.

#### ENVIRONMENT

- **Principle 7:** Businesses should support a precautionary approach to environmental challenges;
- **Principle 8:** undertake initiatives to promote greater environmental responsibility; and
- **Principle 9:** encourage the development and diffusion of environmentally friendly technologies.

#### ANTI-CORRUPTION

- **Principle 10:** Businesses should work against corruption in all its forms, including extortion and bribery.



## Appendix 4

### Sector-specific ESG Standards

In addition to the UN Global Compact principles, BNP Paribas Investment Partners implements a series of ESG standards related to investments in controversial sectors and products. These standards are consistent with sector policies adopted by the BNP Paribas Group and cover the following areas:

- **Palm oil and Wood Pulp** The aim is to encourage the production of sustainable palm oil and wood pulp by investing only in companies that meet minimum environmental and social standards. Consequently, companies that do NOT adhere to such minimum standards (eg by converting protected areas into palm oil and wood plantations, or using child/forced labour) should not be invested in.
- **Nuclear.** The objective is to ensure that we invest in companies that operate in countries with a proper legal framework, use appropriate technologies and adopt adequate health & safety monitoring and accident prevention measures.
- **Coal-fired Power Generation.** The aim is to ensure that we invest in utility companies that decrease their CO2 intensity by operating more efficient coal-fired power stations and diversifying to cleaner sources of electricity generation.
- **Controversial weapons.** The objective is to ensure that we do not invest in companies involved in the production, trading and storage of controversial weapons. These include cluster ammunition and antipersonnel landmines, chemical and biological weapons, and nuclear/depleted uranium weapons. Most of these weapons are covered by international conventions and investments are already prohibited in some jurisdictions.
- **Asbestos.** The objective is to ensure that we do not invest in companies involved in the extraction or production of asbestos fibers banned today in more than 50 countries.
- **Mining:** the objective is to ensure that we do not invest in companies that use Mountain Top Removal (MTR) technics or with low ESG standards and practices.

For each area, the sections below contain background information and key definitions on activities and companies concerned. Investment criteria addressing the main ESG issues and are split into two categories:

- **Mandatory requirements** are to be understood as sine qua non: those have to be met without exception for BNPP IP to invest in a company.
- **Evaluation criteria** provide a framework for further contextual analysis and dialogue with companies, based on which BNPP IP may decide not to invest even if mandatory requirements are met.



## 1. Palm Oil

### a. Background

Palm production is a major source of income and provides a livelihood to millions of people in developing countries. It also serves as an important source of nutrition for families in many countries worldwide<sup>2</sup>. However development of palm oil plantations can have several adverse impacts on local communities, climate change and ecosystems. These impacts mainly depend on the way palm oil is produced and milled.

With 45 million metric tons produced in 2009, crude palm oil accounts for about one-third of the world's total vegetable oil market. Used in a wide range of food, cleaning, personal healthcare products, and also for biodiesel production, its market share is still increasing.

Due to the climatic conditions required for palm trees growth, plantations are mostly concentrated in tropical areas around the equator. Malaysia and Indonesia alone account for more than 85% of global palm oil production, followed by Thailand, Nigeria and Colombia. Consumption is mainly driven by India, China, and the European Union.

Development of palm oil plantations can have several adverse impacts on the environment and local communities. However, the environmental and social issues in the palm oil sector mainly depend on the way palm oil is produced and milled. Responsible palm oil can indeed limit these impacts.

**Communities:** Abusive firing to clear land for plantation as well as massive use of pesticides and fertilizers, have major consequences on human beings. Drinking and bathing waters are being contaminated by the pesticides and palm oil effluents. Plantations can thus negatively affect communities depending on these water sources as well as on the forest to live. Moreover, land acquisitions and changes in the land nature often threaten local communities, which rarely have formal property rights on the forests they live in. Failures to follow the proper land acquisition procedures or lack of information and consultation of local communities during the clearing of community lands have led to disputes and land right conflicts.

By contrast, palm production is a major source of income and provides a livelihood to millions of people in developing countries. It is estimated that about 40% of palm oil is produced by smallholders. Many countries rely on palm oil for their rural development and their export growth. It also serves as an important source of nutrition for families in many countries worldwide.

**Climate change:** Forest conversion into plantations contributes to global warming. It is estimated that deforestation is responsible for around one-fifth of all human induced greenhouse gas (GHG) emissions. A non negligible part of oil palm expansion in Malaysia and Indonesia has been demonstrated to occur mainly at the expense of forest cover. Moreover peatland drainage for the purpose of oil palm plantations development is responsible for significant CO<sub>2</sub> emissions, as the carbon matter stored in peat is exposed to the atmosphere. Degraded peat lands are also more prone to fire. Reducing deforestation and preserving intact tropical forests can bring near-term and cost-effective reductions in GHG emissions.

**Ecosystems and land use:** Primary forests are home to about two thirds of world vegetal and animal species. For many years, ecosystems with high conservation value have been cleared to leave space to plantations. It resulted in the destruction of natural critical habitats containing rare and endangered species that were squeezed into increasingly isolated fragments of natural habitat. Nevertheless, the protection of natural forests can preserve habitats and biological diversity, reduce soil erosion and mitigate flooding. Moreover, palm is the most productive oil, representing approximately one third of global oil production worldwide, using 5% of the world's production space. Replacing it systematically by other types of oil would mean a significant increase in global land use for oil production.

Sustainable and responsible practices can limit these impacts, and as a global investment manager BNP Paribas IP is convinced that they should be encouraged as they can bring long-term benefits to its customers and to the society at large. Several initiatives have indeed been launched in order to raise awareness and to mitigate environmental and social issues of palm oil production, the most prominent one being the Roundtable on Sustainable Palm Oil (RSPO).

The RSPO was established in 2004, at the initiative of palm producers, agri-businesses, end users and NGOs. In 2007, the RSPO Executive Board approved a certification protocol that details requirements for applicants and certification bodies and published a set of Principles and Criteria, which is to be revised within five years from their publication date.

<sup>2</sup> IFC Discussion Paper: Key Sustainability Issues in the Palm Oil Sector, 2010.



RSPO certification brings concrete answers to the main ESG issues of the palm oil industry, but one has to take into consideration that it is a long and costly process. By applying RSPO principles, palm oil companies commit themselves to transparency, compliance with applicable laws and regulations, use of appropriate best practices, environmental responsibility, conservation of natural resources and biodiversity, responsible consideration of employees and of individuals and communities affected by growers and mills, and last but not least responsible development of new mills. The RSPO certification of an asset (typically part of a plantation or a mill) implies having set out a time-bound plan to achieve full RSPO certification of all assets.

Although it might be further improved in the future, BNP Paribas IP believes that the RSPO principles are so far the best available sustainability standards in this industry.

BNP Paribas IP is aware that other initiatives are being driven or will come out both at a general level such as the Indonesian government's ISPO, and at company level with sustainable palm oil policies and Environmental & Safety management plans approved by third parties.

BNP Paribas IP will consider new developments in this sector and might amend these guidelines to take them into account. Therefore, BNP Paribas IP will continue, under certain conditions set out in this document, to invest in the palm oil sector as it believes that it can be produced in a sustainable and responsible way.

#### **b. Companies Concerned.**

These guidelines apply to companies directly involved in the upstream or downstream palm oil value chain and for which it represents a significant part of their activities. Upstream companies refer to palm oil plantations and mills, whereas downstream companies refer to refiners and traders. Other companies further down the value chain (ingredients and products manufacturers and retailers) are not in the scope of such policy.

#### **c. Mandatory Requirements**

BNP Paribas IP expects that upstream palm oil companies:

- Do not use child<sup>3</sup> or forced labour<sup>4</sup>;
- Will not develop a new plantation on lands previously owned or occupied by local communities without having (and in line with the RSPO principles and criteria):
  - conducted a proper consultation process,
  - achieved an acceptable compensation arrangement, and
  - implemented an acceptable grievance mechanism.
- Do not convert UNESCO World Heritage Sites into palm plantations;
- Do not convert Wetlands on the Ramsar list into palm plantations;
- Do not convert existing High Conservation Value forests (HCVF) into new plantations. In case a client's plantation is located on land formerly occupied by HCVF, the clearing must have occurred more than 10 years ago, and the client shall certify (and to the extent feasible demonstrate) that it is not responsible directly or indirectly for such conversion;
- Have a no-burn policy, in line with the recommendations of the ASEAN policy on zero burning or other regional best practice;
- Have clear and stringent peat land management procedures in place for any new plantation development.

<sup>3</sup> As defined under the criteria 6.7 of the RSPO.

<sup>4</sup> As defined under International Labour Standards



#### d. Evaluation Criteria

BNP Paribas IP encourages palm oil companies to adopt best practices in the production of sustainable palm oil.

BNP Paribas IP believes RSPO is currently the best available set of criteria for sustainability in this industry and encourages palm oil companies:

- to become an active member of the RSPO (or any equivalent industry initiative that may emerge);
- in the case of producers, to have their plantations certified to RSPO (or equivalent) standard, or to design and implement action plans to have the palm plantations certified by the end of 2015;
- in the case of palm oil mills, traders and refiners, to set up policies requiring that their suppliers (i) become RSPO certified by the end of 2015 as well as (ii) encourage the traceability of sources of palm oil supply.

BNP Paribas IP expects that upstream palm oil companies comply with existing social and environmental laws, at a local or state/provincial level, as well as with international regulations ratified by their operating countries. These include Convention on International Trade on Natural Species of Wild Flora and Fauna, Convention on Biological Diversity, International Labor Organization Convention 169 Concerning Indigenous & Tribal Peoples in Independent Countries, ILO Conventions on Forced Labour and Worst Forms of Child Labour.

#### e. Key Definitions

**Local community:** broad group of people living in or near a forest or plantation, with significant level of dependence on it. The term includes forest dwellers, indigenous forest-adjacent populations and recent immigrants. (Source: IFC Operational Policy on Forestry)

**ASEAN no burn policy:** In response to the land and forest fires that affected the ASEAN region in 1997/98, the ASEAN Environment Ministers agreed to adopt the policy on zero burning at the 6th ASEAN Ministerial Meeting on Haze in April 1999, and to promote its application by plantations in the region. The guidelines for the implementation of this policy have been developed to provide advice to plantation owners, managers, supervisory staff and contractors on the application of the zero burning technique for development of oil palm plantations.<sup>5</sup>

**UNESCO World Heritage areas:** Designated cultural and natural heritage areas around the world that are considered of outstanding value to humanity and which are listed under the World Heritage Convention

**Peat land:** Wetland in which substantial peat accumulation--at least one foot (30 cm)--has taken place<sup>6</sup>. The peatland substrate is in reality an organic structure built by biological activity.

**Ramsar sites:** "Sites containing representative, rare or unique wetland types" and "Sites of international importance for conserving biological diversity" listed in the Convention on Wetlands adopted in Ramsar, Iran in 1971 (Ramsar convention).

**High Conservation Value Forests (HCVF):** are defined as follows (from the Forest Stewardship Council, reported in the RSPO Principles and Criteria):

<sup>5</sup> <http://www.rspo.org/?q=page/864>

<sup>6</sup> Charman, D. 2002. Peatlands and environmental change. J. Wiley & Sons, London & New York, p. 301



- Forest areas containing globally, regionally or nationally significant concentrations of biodiversity values (e.g. endemism, endangered species);
- Forest areas containing globally, regionally or nationally significant large landscape level forests, contained within, or containing the management unit, where viable populations of most if not all naturally occurring species exist in natural patterns of distribution and abundance;
- Forest areas that are in or contain rare, threatened or endangered ecosystems;
- Forest areas that provide basic services of nature in critical situations (e.g. watershed protection, erosion control);
- Forest areas fundamental to meeting basic needs of local communities (e.g. subsistence, health);
- Forest areas critical to local communities' traditional cultural identity (areas of cultural, ecological, economic or religious significance identified in cooperation with such local communities).

### RSPO Principles and Criteria (2007)

Each of the following 8 principles are declined into a series of [40] criteria. More information is available on:

<http://www.rspo.org/?q=page/513>

- **Principle 1:** Commitment to transparency
- **Principle 2:** Compliance with applicable laws and regulations
- **Principle 3:** Commitment to long-term economic and financial viability
- **Principle 4:** Use of appropriate best practices by growers and millers
- **Principle 5:** Environmental responsibility and conservation of natural resources and biodiversity
- **Principle 6:** Responsible consideration of employees and of individuals and communities affected by growers and mills
- **Principle 7:** Responsible development of new plantings
- **Principle 8:** Commitment to continuous improvement in key areas of activity



## 2. Wood Pulp

### a. Background

The demand for paper product is set to increase significantly over the coming years and is likely to have significant impacts on the sustainability of the sector.

Most environmental and social impacts are concentrated in forestry management and wood pulp production. BNP Paribas IP identifies five main sustainability issues associated with these parts of the supply chain:

- Environmental and biodiversity issues linked to the deforestation and the industrial wood plantations to supply wood resources to the pulp mills
- Social issues linked to the development of a pulp mill or an industrial wood plantation project (respect of local people rights, involvement of local communities, job development...)
- Water and wastewater management in the pulp process, particularly dioxin emissions from bleaching
- Occupational health and safety in wood plantations and pulp mills
- Environmental management in pulp mills (inc. air emissions and waste management)

BNP Paribas IP will continue, under certain conditions set out in this document, to invest in wood pulp sector as it believes that it can be produced in a sustainable and responsible way.

### b. Companies Concerned.

These guidelines apply to companies directly involved in the upstream or downstream wood pulp value chain.

Upstream refers to the industrial wood plantations and forest harvesting activity of pulp producers, whereas downstream refers to wood pulp producers, including for their own use, and traders.

Other companies further up or down the value chain (paper making companies which do not produce their own pulp, chemicals manufacturers and machinery manufacturers as well as paper retailers and distributors) are not within the scope of these guidelines.

### c. Mandatory Requirements for Forestry Management

BNP Paribas IP requires that upstream pulp companies comply with existing social and environmental laws, at a local or state/provincial level, as well as with international regulations ratified by their operating countries. These include Convention on International Trade on Natural Species of Wild Flora and Fauna, Convention on Biological Diversity, International Labor Organization Convention 169 Concerning Indigenous & Tribal Peoples in Independent Countries, ILO Conventions on Forced Labour and Worst Forms of Child Labour.

In order to ensure that basic social requirements are met and to limit negative impacts on climate change and biodiversity, BNP Paribas requires that upstream pulp companies:

- Do not use child or forced labour manpower;
- Will not develop a new plantation on land owned or occupied by local communities without having (and in line with the FSC or PEFC principles and criteria):
  - conducted a free, prior and informed consultation process,
  - achieved an acceptable compensation arrangement, and
  - implemented an efficient grievance mechanism.



- Do not use illegally harvested wood<sup>7</sup>.
- Do not convert UNESCO World Heritage Sites into industrial wood plantations;
- Do not convert Wetlands on the Ramsar list into industrial wood plantations;
- Conduct a High Conservation Value (HCV) assessment before developing a new plantation;
- Do not convert High Conservation Value forests (HCVF) into new plantations. In case a company's plantation is located on land formerly occupied by HCVF, the clearing must have occurred no later than 2001, and the company shall certify (and to the extent feasible demonstrate) that it is not responsible directly or indirectly for such conversion;
- Have a clear and stringent peat land management procedure in place for any new plantation located on peat land.
- Have a no-burn policy, in line with the recommendations of the ASEAN policy on zero burning or other regional best practice;
- Provide a monitoring plan of the workforce health & safety conditions on a regular basis.

#### d. Evaluation Criteria for Forestry Management

BNP Paribas IP encourages upstream pulp companies to move towards higher standards of sustainability. Concerning forest management, BNP Paribas believes FSC and PEFC are currently the best available set of criteria for sustainability in this industry and encourages upstream pulp companies:

- to become an active member of their national FSC or PEFC multi-stakeholders governance systems (or any equivalent forest management initiative that may emerge);
- in the case of pulp producers buying wood from external parties, to ask to their suppliers to have their forest or plantation FSC or PEFC certified or to design and implement action plans to have the forest or the plantation certified within a five-years period<sup>8</sup>;
- in the case of forest and plantation managers, to have their forest or plantation FSC or PEFC certified or to design and implement action plans to have the forest or the plantation certified within a five-years period<sup>9</sup>.
- BNP Paribas IP also encourages upstream pulp companies to present a clear and stringent environmental management procedure for existing plantations. This procedure will clearly indicate how the project is dealing with agro-chemicals, water and biodiversity management. In case of an external supply of wood for the pulp mill, the company must ask such procedure to its suppliers.
- BNP Paribas IP strongly encourages upstream pulp companies to develop alternatives to plantations on peat lands, as peatlands are valuable for the various and crucial ecosystem services they provide. These functions and values include biodiversity maintenance, carbon and water storage, as well as water regulation and quality.

#### e. Mandatory Requirements for Pulp Production

BNP Paribas IP requires that pulp producers comply with existing social and environmental laws, at a local or state/provincial level, as well as with international regulations ratified by their operating countries.

<sup>7</sup> Illegal logging definition for this policy is the list of illegal logging acts given by the FAO Committee on Paper and Wood Products in their study *Defining illegal logging: what it is, and what is being done about it?* (2003).

<sup>8</sup> This five-year period will start at the official publication date of this policy. For new CIB clients, it will start at the date of signing of the first commercial contract (whatever its nature) with BNP Paribas.

<sup>9</sup> *ibid*



Concerning wood supply, pulp producers must verify that their wood sourcing respect the mandatory requirements applicable to Forestry Management.

BNP Paribas IP is aware that Absorbable Organic halogens (AOX) may be emitted in the water when the process uses a bleaching step. This particular type of pollution coming from pulp mills has been pointed out by NGOs and health organizations. Over recent years, chlorine and hypochlorite have largely been phased out as primary bleaching chemicals. Indeed, Elementary Chlorine Free (ECF) and Totally Chlorine Free (TCF) processes allow obtaining concentrations of dioxins and furans in the effluents that are under the detections limits. BNP Paribas believes that ECF and TCF are so far the best available techniques to manage sustainable bleaching.

As a result BNP Paribas requires that pulp producers:

- Will develop new pulp mills using ECF or TCF technology if the bleaching process is necessary.
- Will make the transition of their process towards ECF or TCF technology in case of already existing plants.
- Will present a management plan to monitor and control various water effluents level and air emission indicators listed by the applicable IFC Environmental, Health, and Safety (EHS) Guidelines for Pulp and Paper Mills. As of the publication date of this policy, these parameters are the followings: Flow, pH, TSS, COD, BOD5, AOX, Total N, Total P<sup>10</sup>.
- Provide a monitoring plan of the workforce health & safety conditions on a regular basis.

#### f. Evaluation Criteria for Pulp Production

BNP Paribas IP encourages downstream pulp companies to move towards higher standards of sustainability. BNP Paribas IP believes that FSC and PEFC are currently the best available set of criteria for fiber sourcing sustainability in the pulp industry and encourages downstream pulp companies (i.e. pulp producers and traders):

- to obtain the FSC or PEFC Chain of Custody (CoC) certification for their activities. They are also encouraged to set up policies requiring that their suppliers (i) have their own plantations FSC or PEFC certified within a five-year period as well as (ii) encourage the traceability of sources of wood for the pulp industry by securing FSC or PEFC CoC certification for their activities. In any case, downstream pulp companies should present a credible sourcing plan for wood (at the beginning of the project in case of new pulp mills); mentioning if needed an external supply of wood and specifying what is this external source;
- to become an active member of their national FSC or PEFC multi-stakeholders governance systems (or any equivalent forest management initiative that may emerge);

Concerning water and air emissions, BNP Paribas encourages pulp producers:

- to ensure that emission levels at all their pulp mills are under or equal to the levels presented in the IFC EHS Guidelines for Pulp and Paper Mills (Annex B on “Effluents and Emissions Guidelines”). In the case they are higher than such emission levels, BNP Paribas encourage pulp producers to develop efficient action plans to correct these deviations and decrease emissions until they are below the IFC’s levels.
- to present (at the beginning of the project in case of a new pulp mill) a credible energy sourcing plan and the impact of this energy mix on CO2 emissions.

In relation to Environmental & Social Management Systems (ESMS) and Health & Safety Management Systems (HSMS), BNP Paribas believes that ISO 14001 and OHSAS 18001 are currently the best available sustainability certificates for industrial processes and BNP Paribas encourages pulp producers:

<sup>10</sup> More specifically, such indicators are listed in the Annex B “Effluents and Emissions Guidelines / Resource Use Benchmarks” of the IFC EHS Guidelines on Pulp and Paper Mills.



- to set up and implement an EMS dealing with air, water emissions, waste management, soil and groundwater contamination and to develop a plan to have their activities ISO 14 001 (or equivalent EMS certification scheme) certified within a five-years period<sup>11</sup>;
- to set up and implement a HSMS and to develop a plan to have their activities OHSAS 18 001 (or equivalent HSMS certification scheme) certified within a five-years period<sup>12</sup>.

#### g. Key Definitions

The following definitions apply in these guidelines:

**AOX:** Absorbable Organic halogen is a group of halogenated organic substances that are able to absorb onto activated carbon.

**ASEAN no burn policy:** In response to the land and forest fires that affected the ASEAN region in 1997/98, the ASEAN Environment Ministers agreed to adopt the policy on zero burning at the 6th ASEAN Ministerial Meeting on Haze in April 1999, and to promote its application by plantations in the region. The guidelines for the implementation of this policy have been developed to provide advice to plantation owners, managers, supervisory staff and contractors on the application of the zero burning technique for development of oil palm plantations<sup>13</sup>.

**BOD5:** Biological Oxygen Demand measures the amount of dissolved oxygen needed by aerobic biological organisms in a body of water to break down organic material.

**COD:** Chemical Oxygen Demand (COD) measures the amount of organic compounds in water.

**ECF:** Elementary Chlorine Free (ECF) process for bleaching the pulp. It allows obtaining concentrations of dioxins and furans in the effluents that are under the detections limits.

**EMS:** Environmental Management System. It can be recognized by an ISO 14 001 certification or equivalent.

**FSC Principles and Criteria established in 1993** (as reported in the Sustainable Forest Finance Toolkit of the WBCSD). FSC is a system of national and regional standards consistent with 10 principles of SFM that cover the following issues:

1. Compliance with laws and FSC principles
2. Tenure and use rights and responsibilities
3. Indigenous people's rights
4. Community relations and workers' rights
5. Benefits from the forests
6. Environmental impact
7. Management plans
8. Monitoring and assessment
9. Special sites – high conservation value forests (HCVF)
10. Plantations

These principles were developed by a global partnership of stakeholders convened by FSC. The principles apply to all tropical, temperate and boreal forests and are to be considered as a whole. All national and regional standards are derived in-country from the 10 principles. The principles are expected to be used in conjunction with national and international laws and regulations, and in compatibility with international principles and criteria relevant at the national

<sup>11</sup> This five-year period will start at the official publication date of this policy for companies.

<sup>12</sup> Ibid.

<sup>13</sup> <http://www.rspo.org/?q=page/864>



and sub-national level (FSC Policy and Standards; principles and criteria of forest stewardship) (FSC, 1996). There is variation in regional standards and in interim standards adopted by auditing bodies.

**High Conservation Value Forests (HCVF):** are defined as follows (from the Forest Stewardship Council, reported in the Sustainable Forest Finance Toolkit of the WBCSD<sup>14</sup>):

- Forest areas containing globally, regionally or nationally significant concentrations of biodiversity values (e.g. endemism, endangered species);
- Forest areas containing globally, regionally or nationally significant large landscape level forests, contained within, or containing the management unit, where viable populations of most if not all naturally occurring species exist in natural patterns of distribution and abundance;
- Forest areas that are in or contain rare, threatened or endangered ecosystems;
- Forest areas that provide basic services of nature in critical situations (e.g. watershed protection, erosion control);
- Forest areas fundamental to meeting basic needs of local communities (e.g. subsistence, health);
- Forest areas critical to local communities' traditional cultural identity (areas of cultural, ecological, economic or religious significance identified in cooperation with such local communities).

**H&S:** Health and Safety Management System. It can be recognized by an OHSAS 18 001 certification or equivalent.

**Local community:** broad group of people living in or near a forest or plantation, with significant level of dependence on it. The term includes forest dwellers, indigenous forest-adjacent populations and recent immigrants. (Source: IFC Operational Policy on Forestry).

**Peatlands:** Wetland in which substantial peat accumulation--at least one foot (30 cm)--has taken place<sup>15</sup>. The peatland substrate is an organic structure built by biological activity. Peatlands are valuable for the various and crucial ecosystem services they provide. These functions and values include biodiversity maintenance, carbon and water storage, solute detention and water regulation and quality.

- Firstly, undrained peatlands are unique natural resources forming distinct ecosystems of great biodiversity importance for the maintenance of genetic, species and habitat levels.
- Peatlands are also water catchments. They modify water quality and quantity, act as sinks for some substances, produce others, and influence the temporal pattern of water supply to rivers and lakes. The role of peatlands in water regulation depends on maintaining the integrity of their unique hydrology that is independent of but linked to that of adjacent wetlands and the wider landscape.
- Finally, peatlands have been major global carbon stores for millennia. Peatlands also emit CO<sub>2</sub> and CH<sub>4</sub>, the amounts being influenced by temperature and water level, both of which are likely to be affected by removal of vegetation, drainage and future climate change. Agriculture on drained peatlands leads to substantial emissions of carbon dioxide and nitrous oxide (N<sub>2</sub>O)<sup>16</sup>.

**PEFC Principles and Criteria established in 1999** (as reported in the Sustainable Forest Finance Toolkit of the WBCSD).

<sup>14</sup> [http://www.pwc.co.uk/eng/issues/forest\\_finance\\_home.html](http://www.pwc.co.uk/eng/issues/forest_finance_home.html)

<sup>15</sup> Charman, D. 2002. Peatlands and environmental change. J. Wiley & Sons, London & New York, p. 301

<sup>16</sup> Sources: Assessment on Peatlands, Biodiversity and Climate change, UNEP-GEF 2007, Strategy for responsible peatland management, IPS 2010



PEFC is a mutual recognition mechanism for national and regional certification systems. Endorsed certification systems are to be consistent with internationally agreed environmental, social and economic requirements such as the Pan-European Operational Level Guidelines (PEOLG), the African Timber Organization (ATO) and International Tropical Timber Organization's (ITTO) Guidelines, as well as intergovernmental processes on criteria and indicators for SFM. The elements of SFM covered by these requirements may vary to fit the circumstances of the areas for which they were developed. For instance, the Pan-European Operational Level Guidelines cover the following:

1. Maintenance and enhancements of forest resources and their contribution to global carbon cycles
2. Maintenance and enhancement of forest ecosystem health and vitality
3. Maintenance of productive functions of forests
4. Maintenance, conservation and enhancement of biodiversity
5. Maintenance and enhancement of protective functions in forest management
6. Maintenance of socioeconomic functions and conditions

Endorsed certification systems are expected to be consistent with international agreements such as ILO core conventions, as well as conventions relevant to forest management and ratified by the countries such as the Convention on Biological Diversity (CBD), CITES and others. There is variation among member certification standards, with some standards exceeding PEFC requirements (PEFC, 2006A).

**pH:** In chemistry, pH is a measure of the acidity or basicity of an aqueous solution.

**Ramsar sites:** "Sites containing representative, rare or unique wetland types" and "Sites of international importance for conserving biological diversity" listed in the Convention on Wetlands adopted in Ramsar, Iran in 1971 (Ramsar convention<sup>17</sup>).

**TCF:** Totally Chlorine Free (TCF) process for bleaching the pulp replace totally the chlorine by an oxygen bleaching process.

**Total N:** Total quantity of Nitrogen.

**Total P:** Total quantity of Phosphor.

**TSS:** Total Suspended Solids is a water quality measurement, measuring the non-filterable solids concentration in the water.

**UNESCO World Heritage areas:** Designated cultural and natural heritage areas around the world that are considered of outstanding value to humanity and which are listed under the World Heritage Convention<sup>18</sup>

<sup>17</sup> [http://www.ramsar.org/cda/en/ramsar-documents-list/main/ramsar/1-31-218\\_4000\\_0](http://www.ramsar.org/cda/en/ramsar-documents-list/main/ramsar/1-31-218_4000_0)

<sup>18</sup> <http://whc.unesco.org/en/list/>



### 3. Nuclear Power Stations

#### a. Background

The nuclear power sector is one of the main electricity providers in the world today. According to the IEA, the share of nuclear power in generation will increase with more than 360 GW of new additions over the period between 2008 and 2035 and extended lifetime for several plants. Furthermore, countries that chose to develop their nuclear industry consider that it has positive impacts, especially on economic development, energy security of supply and greenhouse gas emissions reduction.

BNP Paribas IP considers that it is essential - both for the countries and for the international community as a whole - that any country undertaking a nuclear power program or developing additional nuclear power plants is not only willing but also capable of meeting essential requirements regarding safety, security, non-proliferation, protection of populations and of the environment for future generations.

BNP Paribas IP wishes to ensure that the companies it contributes to finance are in line with the principles of monitoring and mitigating environmental and social impacts in the nuclear power sector.

#### b. Companies Concerned.

These guidelines apply to companies involved in a Nuclear Power Plant (NPP) as owner or operator of the nuclear island, and to companies involved in the nuclear fuel cycle (defined as uranium enrichment, fuel fabrication, used fuel recycling and/or storage and disposal of nuclear waste).

BNP Paribas IP expects Nuclear Companies to comply with existing local laws and licensing arrangements as well as with international conventions ratified by their operating countries. In addition to compliance with these regulations, these guidelines set additional criteria to be respected by Nuclear Companies.

#### c. Mandatory Requirements applicable to Companies involved in a Nuclear Power Plant (NPP)

The Nuclear Company only owns or operate NPPs whose nuclear reactors have a design which is similar to reactors operated in a Reference Nuclear Country or which has been validated by the NSA of a Reference Nuclear Country,

The Nuclear Company has a global policy ensuring radiation monitoring (both on site and around the site) and the protection of workers.

There is an independent chain of control to monitor the safety of the nuclear operations,

The following requirements have to be applied to the incorporation country of the Nuclear Company and of its parent company

##### (i) Proper legal framework:

- An official approval by the government and the supervising bodies of the civil nuclear power sector has been obtained for the NPP project,
- Protection of workers is required in the regulatory framework,
- Existence of a plan for the development of long-term solutions for the management of high and intermediate level nuclear waste,
- Existence of a plan for the dismantling of NPPs.

##### (ii) International cooperation:



- Host country is signatory to the Non Proliferation Treaty (or an equivalent bi-lateral agreement on nuclear energy safety and proliferation with a Reference Nuclear Country),
- The last available Comprehensive Safeguards Agreement Report by the IAEA doesn't mention any specific issues or any lack of information that would hinder the monitoring of the nuclear facilities of the host country,
- The NPPs of the host country dedicated to producing electricity are used for peaceful purposes<sup>4</sup>,
- Participation in the IAEA Incident Reporting System (IRS) (in case of a country with no prior nuclear facility, this participation is planned before the commissioning of the first NPP in such new entrant country).

(iii) Nuclear Safety Agency:

- Existence of a Nuclear Safety Agency (NSA) or an equivalent state agency that covers at least the control of Nuclear Power Plants throughout its life cycle,
- The NSA has the statutory power to run inspections that can lead to sanctions.

(iv) Political stability and country security:

Host country offers a satisfactory level of stability allowing visibility over a safe and long-term operation of the NPP. This level of stability and security is assessed against the following criteria:

- Host country is not subject to international sanctions,
- NPP project is not located in a conflict zone<sup>5</sup>,
- Existence of national and/or local prevention and emergency plans adapted to the geographical specifics, including external hazards (such as flooding or earthquake risks).

**d. Evaluation Criteria applicable to Companies involved in a Nuclear Power Plant (NPP)**

In addition to the above mandatory requirements, BNP Paribas IP will consider further evaluation criteria to assess the standards of Nuclear Companies against those of the main Nuclear Companies of a Reference Nuclear Country (for those involved in a NPP). The objective of these criteria is to evaluate the capacity of the Nuclear Company to effectively monitor and mitigate environmental and social impacts.

BNP Paribas IP will therefore evaluate their long-term financial strength as well as their experience (including experience of their top management) and track record regarding safety, security and the environment. BNP Paribas will also evaluate the thoroughness of their subcontractor selection process, their transparency, as well as their cooperation with peers and supervisory bodies (in particular those from Reference Nuclear Countries).



**e. Mandatory Requirements applicable to Companies involved in the Nuclear Fuel Cycle**

The mandatory requirements detailed above for NPPs have to be applied to the incorporation country of the Nuclear Company and of its parent company,

Operating licenses of the Nuclear Company are not suspended in the host country nor in any Reference Nuclear Country,

There is an independent chain of control to monitor the safety of the nuclear operations,

The Nuclear Company has put in place policies and procedures to prevent and limit any radiation emission.

**f. Evaluation Criteria applicable to Companies involved in the Nuclear Fuel Cycle**

In addition to the above mandatory requirements, BNP Paribas IP will consider further evaluation criteria to assess the standards of Nuclear Companies against those of main Nuclear Companies of a Reference Nuclear Country (for those involved in the nuclear fuel cycle). The objective of these criteria is to evaluate the capacity of the Nuclear Company to effectively monitor and mitigate environmental and social impacts.

BNP Paribas IP will therefore evaluate their long-term financial strength as well as their experience (including the experience of their top management) and track record regarding safety, security and environment. BNP Paribas IP will also evaluate the thoroughness of their subcontractor selection process, their transparency, as well as their cooperation with peers, supervisory bodies (in particular those from Reference Nuclear Countries), and international research programs.

**g. Key Definitions**

**Comprehensive Safeguards Agreements:** "Safeguards are activities by which the IAEA can verify that a State is living up to its international commitments not to use nuclear programs for nuclear-weapons purposes" (Extract from IAEA FAQ). Comprehensive Safeguards Agreements are set between countries and the IAEA to enable the latter to pursue various such verifications.

**IAEA:** International Atomic Energy Agency. The IAEA is the United Nations' centre of cooperation in the nuclear field. It was set up in 1957 and works with its Member States and multiple partners worldwide to promote safe, secure and peaceful nuclear technologies.

**INES Scale:** International Nuclear and Radiological Event Scale. It is a tool for communicating to the public in a consistent way the safety significance of nuclear and radiological events (including events from industrial and medical use of radiation sources, operations at nuclear facilities and transport of radioactive material).

Events are classified on the scale at 7 levels:

- Levels 1–3 are called "incidents"
- Levels 4–7 are called "accidents".

The scale is designed so that the severity of an event is about ten times greater for each increase in level on the scale. Events without safety significance are called "deviations" and are classified Below Scale / Level 0.

**IRS:** Incident Reporting System. IRS is a joint initiative of IAEA and NEA (OECD Nuclear Energy Agency). This worldwide system collects and analyzes information provided by operators. Its ultimate objective is to enhance the safety of NPPs by reducing the frequency and severity of safety significant unusual events at NPPs worldwide.

**OECD:** Organisation for Economic Cooperation and Development. High income OECD countries are those with a Gross National Income (GNI) per capita of \$12,196 or more, based on the World Bank Atlas method.



**NPP:** Nuclear Power Plant. Power plant based on nuclear fission designed and operated for the production of electricity.

**NPT:** Non-proliferation treaty. The NPT is an international treaty whose objective is to prevent the spread of nuclear weapons and weapons technology, to promote co-operation in the peaceful uses of nuclear energy and to help achieving nuclear disarmament and general and complete disarmament.

**NSA:** Nuclear Safety Agency. The NSA is a generic term for the administrative authority in charge of ensuring nuclear control and safety. It regulates nuclear safety and radiation protection in order to protect workers, patients, the public and the environment. It also contributes to informing the citizens.

**Nuclear fuel cycle:** for the purpose of this policy, the nuclear fuel cycle comprises the following activities: uranium enrichment, fuel fabrication, used fuel recycling and/or storage and disposal of nuclear waste.

**Reference Nuclear Country:** Defined as any country having demonstrated a high level of nuclear safety and reliability in the operation of a large NPP fleet. BNP Paribas defines Reference Nuclear Countries as high income OECD countries with top tier experience in operating NPPs (measured in reactor-years) and no nuclear accidents – as defined by the level 4 and above of the INES scale – recorded on a NPP during the last five years.



## 4. Coal-Fired Power Stations

### a. Background

According to the International Energy Agency (IEA), coal accounts for 41% of global electricity supply and is the main source of electricity in the world today. Coal therefore plays a significant role in the global energy mix. Coal can contribute to the economic development of some countries by enabling low cost and reliable electricity access and by supporting their energy independency.

BNP Paribas Investment Partners also acknowledges that coal-fired power generation is a large emitter of carbon dioxide (CO<sub>2</sub>) and a key contributor to climate change. According to the IEA, coal-fired power plants account for respectively 73% of CO<sub>2</sub> emissions from power generation and 29% of the total energy-related CO<sub>2</sub> emissions.

Therefore, a balance must be found between the needs for enhanced access to electricity and to economic development, and the needs for reducing CO<sub>2</sub> emissions from human activities which is critical to limit climate change. The best technologies available should be promoted to enhance coal-fired power plants efficiency and to reduce their environmental footprint.

As a global investment manager, BNP Paribas Investment Partner may continue to invest in coal-fired power generation provided that companies meet the essential environmental and safety requirements set out in this document.

### b. Companies Concerned.

These guidelines applies to utility companies for which CFPPs represent at least 50% of total installed capacity, or for which the share of electricity generated from coal has increased over the last 5 years.

CFPPs are highly regulated at both national and international levels, particularly on air emissions. BNP Paribas expects CFPP companies to comply with existing local laws and regulations as well as with international conventions ratified by their operating countries.

### c. Mandatory Requirements

BNP Paribas IP will ensure that it invests in CFPP companies that meet sufficient technical, social and environmental standards. BNP Paribas IP considers that a CFPP company meets sufficient standards if it complies with the following requirements:

- The CFPP company has decreased CO<sub>2</sub> intensity (expressed in grams of CO<sub>2</sub>e/kWh) over the last three years
- The CFPP company has increased net energy efficiency (expressed in %) or decreased total coal consumption rate (expressed in g/kWh) over the last three years
- The CFPP company invests in less CO<sub>2</sub> intensive generation capacity (e.g. natural gas, renewables).
- The CFPP company discloses its safety track records (e.g. work accidents, fatalities...)
- The CFPP company discloses or can provide on demand any relevant disclosure regarding environmental data (air emissions of sulphur dioxide (SO<sub>2</sub>), nitrogen oxides (NO<sub>x</sub>), particulate matter (PM), carbon monoxide (CO), and greenhouse gases, such as carbon dioxide (CO<sub>2</sub>), water consumption and discharges).

**d. Evaluation Criteria**

BNP Paribas IP will also carry out an analysis of the CFPP company based on the following evaluation criteria.

- The CFPP company has a convincing track record on safety, environmental and social issues evaluated through sector and geographical benchmark.
- The CFPP company is carrying out a CO<sub>2</sub> emission reduction plan for electricity production, evidencing a decreasing trend in CO<sub>2</sub> intensity over the 5 previous years.



## 5. Controversial Weapons

### a. Background

Controversial weapons have indiscriminate effects, cause undue harm and are incapable of distinguishing between civilian and military targets. Some controversial weapons namely cluster munitions, antipersonnel mines, chemical and biological weapons, and nuclear weapons are regulated by international conventions.

### b. Companies Concerned

“Controversial weapons” is a dynamic concept likely to change in time and covered by a number of conventions and /or regulations. BNP Paribas IP considers the following as “controversial weapons”:

- **Anti-personnel mines:** the Ottawa Convention, effective since March 1999, bans the use of anti-personnel mines;
- **Cluster weapons:** the Convention on Cluster Munitions (Oslo Convention) adopted in 2008 prohibits the use, stockpiling, production and transfer of cluster munitions;
- **Nuclear weapons<sup>19</sup>:** the Nuclear Non-proliferation Treaty (NPT) of 1968, effective since 1970 aims at inhibiting the proliferation of nuclear weapons;
- **Biological and chemical weapons:** the Biological and Toxin Weapons Convention (BWC) of 1972 and the Chemical Weapons Convention (CWC) of 1993 outlaw biological and chemical weapon;
- **Depleted uranium ammunitions:** no current Convention exists, but BNP Paribas IP acknowledges the society’s general concern over depleted uranium ammunition.

### c. Mandatory Requirements

BNP Paribas IP does not want to invest in companies that produce, trade, store or carry out any other activity related to “controversial weapons”. BNP Paribas IP considers that a company is involved in controversial weapons when:

- it produces, trades, or stores controversial weapons or components that are specifically designed for the weapon (dedicated component) and that represent a significant building block in the functioning of the weapon (key component) and / or;
- It provides assistance, technology or services dedicated to controversial weapons.

If one of the above-mentioned activities takes place within a subsidiary, the direct parent company is also considered to be involved in controversial weapons if it holds a majority equity interest in the subsidiary.

Likewise, any majority-owned subsidiaries of a parent company involved in controversial weapons are also deemed to be involved.

<sup>19</sup> An exception is made for companies that only contribute to government controlled nuclear weapon programs in NATO countries that are permitted to possess nuclear weapons under the Nuclear Non-Proliferation Treaty.



## D. KEY DEFINITIONS

**Anti-personnel mine:** A mine that is designed to be exploded by the presence, proximity or contact of a person and that will incapacitate, injure or kill one or more persons (definition from Ottawa Convention, 1997).

**Arms Trade Treaty:** Arms Trade Treaty (ATT) is the name of a future UN Treaty that aims at controlling and regulating the importation, exportation and transfer of conventional weapons. The Treaty was adopted by the UN in April 2013.

**Biological weapon:** Are defined in line with the multilateral Convention on the Prohibition of the Development, Production and Stockpiling of Bacteriological (Biological) and Toxin Weapons and on their destruction (1972):

- (a) Microbial or other biological agents, or toxins whatever their origin or method of production, of types and in quantities that have no justification for prophylactic, protective or other peaceful purposes;
- (b) Weapons, equipment or means of delivery designed to use such agents or toxins for hostile purposes or in armed conflict.

**Chemical weapon:** Are defined in line with the multilateral Convention on the Prohibition of the Development, Production, Stockpiling and Use of Chemical Weapons and on their Destruction (1993):

- (a) Toxic chemicals and their precursors, except where intended for purposes not prohibited under this Convention, as long as the types and quantities are consistent with such purposes;
- (b) Munitions and devices, specifically designed to cause death or other harm through the toxic properties of those toxic chemicals specified in subparagraph (a), which would be released as a result of the employment of such munitions and devices;
- (c) Any equipment specifically designed for use directly in connection with the employment of munitions and devices specified in subparagraph (b)

**Cluster munitions:** A conventional munition that is designed to disperse or release explosive submunitions each weighing less than 20 kilograms, and includes those explosive submunitions (definition from the Convention on Cluster Munitions, 2008).

**Controversial weapons:** Controversial weapon is a dynamic concept likely to change in time. As of the publication date of this policy, BNP Paribas IP considers the following as “controversial weapons”:

- (a) Anti-personnel mines: the Ottawa Convention, effective since March 1999, bans the use of anti-personnel mines;
- (b) Cluster weapons: the convention on Cluster Munitions (Oslo Convention) adopted in 2008 prohibits the use, stockpiling, production and transfer of cluster munitions;
- (c) Nuclear weapons<sup>20</sup>: the Nuclear Non-proliferation Treaty (NPT) of 1968, effective since March 1970, aims at inhibiting the proliferation of nuclear weapons;
- (d) Biological and chemical weapons: the Biological and Toxin Weapons Convention (BWC) of 1972 and the Chemical Weapons Convention (CWC) of 1993 outlaw biological and chemical weapon;
- (e) Depleted uranium ammunitions: no current Convention exists, but BNP Paribas IP acknowledges the society’s general concern over depleted uranium ammunition.

**Depleted uranium ammunition:** Ammunition containing depleted uranium.

**Financial Action Task Force:** The Financial Action Task Force (FATF) is an inter-governmental body whose purpose is the development and promotion of national and international policies to combat money laundering and terrorist financing.

<sup>20</sup> An exception is made for companies that only contribute to government controlled nuclear weapon programs in NATO countries that are permitted to possess nuclear weapons under the Nuclear Non-Proliferation Treaty.



**Nuclear weapon:** A device that is capable of releasing nuclear energy in an uncontrolled manner and which has a group of characteristics that are appropriate for use for warlike purposes (definition from Treaty for the Prohibition of Nuclear Weapons in Latin America and the Caribbean, 1967).

**Weapons:** A weapon is generally defined as being a device for use in attack or defence in combat, fighting, or war. Equipments such as radars, binoculars, unarmed trucks are not considered as a weapon.

Definitions above are susceptible to changes over time. We will monitor and continue to follow any new applicable regulation including the negotiations related to the Arms Trade Treaty (ATT).



## 6. Asbestos

### a. Background

The term “asbestos” refers to a set of silicate minerals made up of microscopic fibers. Asbestos was long used in industrial and commercial applications because of its physicochemical properties, including resistance to fire, low thermal, acoustic and electrical conductivity, mechanical resistance, resistance to chemical attacks and elasticity. Asbestos was used on a massive scale for more than 130 years but is now banned in more than 50 countries. The inhalation of asbestos fibers is dangerous and can cause serious illnesses, such as asbestosis and lung cancer, which can take up to 40 years to develop after the start of exposure. The World Health Organization has estimated that 100,000 workers die each year from asbestos-related diseases resulting from exposure to asbestos during asbestos production (mining and crushing).

### b. Companies Concerned

These guidelines apply to companies involved in asbestos as owner or operator of asbestos mines and asbestos fiber production facilities.

### c. Mandatory Requirements

BNP Paribas IP does not want to invest in companies that own or operate asbestos mines and asbestos fiber production facilities.

## D. KEY DEFINITIONS

The term “asbestos” refers to a set of silicate minerals made up of microscopic fibers, including:

### 1/ Loosely bound or unbound (friable) asbestos:

- loose raw asbestos used as thermal insulation in the form of loose fill insulation or flocking (sprayed on), which can be found in some old steel-framed buildings
- woven or braided asbestos for thermal insulation of pipes, personal protective equipment, electrical wiring, etc.
- asbestos paper or board (from 5 to 50mm thick) used for thermal insulation of heaters, suspended ceilings, seals, fireproof partition walls, etc.
- asbestos felt, mainly used for filters.

### 2/ Bonded asbestos:

- asbestos powder added to gypsum plaster mortar, high-bond mortar, bonding agents, plaster patching compounds, etc.
- asbestos mixed with cement (asbestos cement) used in a range of construction materials: corrugated sheets, outside wall sheeting, ventilation ducts, pipes, etc., particularly found in older prefabricated buildings.
- mineral filler in paints, varnishes, sealants, insulating foam, etc.
- asbestos added to plastics for seals, coatings, household utensils, brake linings, clutch facings, etc.
- asbestos added to asphalt for roof waterproofing, anti-corrosion coatings, road surfacing, etc.



More than 50 countries have already banned asbestos, in particular:

1/ Europe:

- The 27 members of the European Union, as well as Iceland, Norway, Switzerland and Turkey.
- Croatia decided to ban asbestos in 2006, but the decision was overturned. Since the country is a candidate to join the European Union, however, it is expected to make the sensible choice to ban asbestos shortly.

2/ North, South and Central America:

- Argentina, Chile, Honduras, Uruguay.
- The situation in the United States is a legally complex one: asbestos is largely banned in the US, but there is no complete ban. On October 4, 2007, the US Senate unanimously voted to pass an act banning the import and use of asbestos. The 1989 ban issued by the United States Environmental Protection Agency (EPA), however, was partly overturned by a court of appeals.
- Prohibitory orders are in force in several states of Brazil, including São Paulo, Rio de Janeiro, Rio Grande do Sul and Pernambuco (N.B. These four states are home to 40% of Brazil's population).
- In a joint declaration signed on June 9, 2010 [see document (in Spanish)], the health ministers of Argentina, Bolivia, Brazil, Chile, Ecuador, Paraguay, Peru, Uruguay and Venezuela underlined the hazards of asbestos and made a commitment to ban asbestos (for those states yet to ban it).

3/ Asia:

- Saudi Arabia, Bahrain, Brunei, South Korea, Israel, Japan, Jordan, Kuwait, Mongolia, Oman, Qatar, Turkey.
- Some countries such as Singapore and Taiwan have issued stringent restrictions which have stopped the use of asbestos.
- The National Health Assembly in Thailand (N.B. Thailand is one of the biggest consumers of asbestos) voted a resolution banning asbestos on December 16, 2010. The ban has not yet come into effect.

4/ Africa:

- South Africa, Algeria, Gabon, Egypt, Mozambique and Seychelles.

5/ Oceania:

- Australia and New Caledonia.
- New Zealand banned the import of raw asbestos, but in theory the import of products containing asbestos is still legal.



## 7. Mining

### a. Background

The mining sector provides mineral resources which are essential inputs to most sectors of the economy. World population growth, combined with the expectations of developing countries populations for higher levels of infrastructures, services and goods comparable to those enjoyed by the populations of most developed countries, are two factors that contribute to increase the world demand for mineral resources, while available mineral reserves get progressively scarcer and more difficult to access.

The mining sector also represents a significant share of national revenue in a wide range of countries and the responsible development of the mining industry is absolutely crucial in these countries in terms of revenue generation, employment, infrastructure development and support to production.

These considerations should however be balanced against the specific environmental, social, and governance risks associated to the mining industry. These cover water use and quality (especially in areas subject to water scarcity), waste generation, local air pollution and greenhouse gases emissions, land use and impacts on biodiversity, human rights impacts (land reclamation, working conditions, local communities' health and safety, population influx, physical or economic resettlement, impacts on indigenous people's livelihood and cultural identity), as well as governance (revenue transparency, environmental and social policies) and benefit sharing issues (such as local job creation and contribution to local economic and social development).

### b. Companies Concerned

These guidelines apply to companies, groups or joint-ventures owning mining assets (which represent a significant share of their total assets) and which are involved in exploration, development or operation of such mining assets.

### c. Mandatory Requirements

BNP Paribas IP does not want to invest in companies that

- Have their headquarters located in countries under financial sanctions from France, the European Union or the USA, or the United Nations;
- Use child or forced labour as defined in the International Labour Organization (ILO) Conventions<sup>21</sup>;
- Cannot provide a track record regarding health and safety at company level;
- Are involved in asbestos extraction;
- Cannot disclose or provide on demand information at company level on their performance related to water use, waste and GHG emissions as well as strategies regarding land reclamation.
- That use Mountain Top Removal (MTR) techniques

## D. KEY DEFINITIONS

### Carbon and Water Disclosure Projects

The Carbon Disclosure Project (CDP) is an independent not-for-profit organization working to drive greenhouse gas emissions reduction and sustainable water use by business and cities. The CDP works with companies to establish methodologies and encourage disclosure and management of climate and water data (e.g. greenhouse gas emissions, water use and pollution), and with investors to assess risks and opportunities related to climate change and water scarcity, flooding, and pollution.

<sup>21</sup> C138 Minimum Age Convention, 1973; C182 Worst Forms of Child Labour Convention, 1999; C29 Forced Labour Convention, 1930



- Extractive Industries Transparency Initiative (EITI):** <http://eiti.org/>  
 The EITI is a global standard ensuring transparency of payments from natural resources companies. It is a coalition of governments, companies, civil society groups, investors, and international organisations.
- Forced labour:** means work or service exacted from a person under threat or penalty, which includes penal sanctions and the loss of rights and privileges, where the person has not offered him/herself voluntarily (Forced Labour Convention n°29, ILO 2001a)
- High Conservation Value (HCV) areas :** High Conservation Value areas are critical areas in a landscape which need to be appropriately managed in order to maintain or enhance High Conservation Values. There are six main types of HCV areas :
- Areas containing globally, regionally or nationally significant concentrations of biodiversity values (e.g. endemism, endangered species, refugia).
  - Globally, regionally or nationally significant large landscape-level areas where viable populations of most if not all naturally occurring species exist in natural patterns of distribution and abundance.
  - Areas that are in or contain rare, threatened or endangered ecosystems.
  - Areas that provide basic ecosystem services in critical situations (e.g. watershed protection, erosion control).
  - Areas fundamental to meeting basic needs of local communities (e.g. subsistence, health).
  - Areas critical to local communities' traditional cultural identity (areas of cultural, ecological, economic or religious significance identified in cooperation with such local communities).



## APPENDIX 5

### How to implement Proxy Voting

**The following principles govern the implementation of proxy voting within BNP Paribas Investment Partners.**

1. Each Investment Partner shall define a voting policy, guidelines and operating procedures that are consistent with the principles defined in this document and take into account local market conditions.
2. Accountability for exercising voting rights lies with the BNPP IP entity in charge of portfolio management, while operational responsibility can be delegated to another entity.
3. Subject to legal and technical constraints, proxy voting should apply to open ended-funds (UCITS), and mandates/segregated accounts where voting rights have been delegated by clients.
4. Shares for which voting rights are exercised should represent a significant proportion of total assets under management, and include companies in which UCITS are an important shareholder.
5. Operating procedures should define key stages of the proxy voting process including: analysis of proposed resolutions, dialogue with companies, decision-making, execution, stock lending/recall, and prevention/resolution of potential conflicts of interest.
6. Each Investment Partner shall maintain records of voting decisions and report internally on proxy voting activity
7. BNPP IP expects voting rights to be exercised according to similar standards for funds delegated to external asset managers (subject to amendment of relevant Investment Management Agreements or Investment Guidelines);
8. Proxy voting are part of the evaluation criteria of external asset managers to be included in funds of funds and buy lists.



## APPENDIX 6

### Voting Guidelines

*The guidelines below are based on BNP Paribas Asset Management Voting Policy and provide an illustration of how to vote on the most common proxy voting items grouped in four themes:*

- 1. Approval of reports and accounts*
- 2. Financial operations*
- 3. Appointments and remuneration of directors and executives*
- 4. Other issues (e.g. related-party transactions).*

*In each case, the guidelines highlight best practices and concerns that may trigger an “oppose” or “abstain” vote.*



## A) REPORTS AND ACCOUNTS

Voting issue	For	Abstain	Against
Financial Statements / Director and Auditor Reports	<ul style="list-style-type: none"> <li>Information provided by the Board presents a full and fair view of company affairs and financial situation.</li> <li>The accounts have been recommended by an independent<sup>22</sup> audit committee.</li> <li>The company provides adequate disclosures on key financial and extra-financial risks</li> </ul>	<ul style="list-style-type: none"> <li>The audit committee comprises less than a third independent members and presence of an executive director in the committee.</li> <li>The accounts are not available at the cutoff date for correspondence vote</li> <li>The company does not provide adequate disclosure on environmental and social issues either in its annual report or elsewhere.</li> </ul>	<ul style="list-style-type: none"> <li>The statutory auditors express reservations or refuse to certify the accounts after having discovered serious irregularities.</li> <li>The Board has not set up an audit committee (to be reviewed on a case-by-case basis for smaller companies and market practice)<sup>23</sup></li> </ul>
Allocation of Income	<ul style="list-style-type: none"> <li>The dividend is covered and the pay-out ratio is reasonable</li> <li>The company has provided sufficient information to indicate the level of dividend.</li> </ul>	<ul style="list-style-type: none"> <li>The payout ratio is lower than in the last year and falls below 25 percent, and the company has failed to provide an explanation for the reduction (to be reviewed on a case-by-case basis for growth companies which usually need to conserve more cash than mature companies)</li> <li>The mark-up of the preferred dividend is more than 10% of the regular dividend</li> </ul>	
Appointment of Auditors and Approval of Audit Fees	<ul style="list-style-type: none"> <li>The auditors have been recommended by an independent audit committee</li> <li>The audit committee has disclosed its policy for the provision of non-audit services by the auditors (e.g. excluded services and pre-approval works)</li> <li>There is full disclosure of audit fees and advisory fees.</li> </ul>	<ul style="list-style-type: none"> <li>The audit committee comprises less than a third independent members AND comprises an executive director</li> <li>Advisory or audit fees are not disclosed</li> </ul>	<ul style="list-style-type: none"> <li>The Board has not set up an audit committee (to be reviewed on a case-by-case basis for smaller companies and market practice)</li> <li>There are potential concerns regarding the independence of the auditors (e.g. advisory fees exceed audit fees, appointments exceeds 6 years)</li> <li>There is reason to believe that the independent auditor has rendered an opinion that is neither accurate nor indicative of the company's financial position.</li> </ul>

<sup>22</sup> The audit committee is composed of at least 50% independent members, does not comprise an executive director, and its members have financial competence

<sup>23</sup> Market capitalization under 1 billion euro


**B) FINANCIAL OPERATIONS**

Voting issue	For	Abstain	Against
Authority to issue shares or securities giving access to the capital	<ul style="list-style-type: none"> <li>The authority respects the “one share – one vote – one dividend” principle</li> <li>The authority is suitably justified and limited, in amount and duration (two years).</li> <li>The authority includes pre-emptive rights (or otherwise priority rights of at least 5 days), does not create significant imbalances between the different categories of shareholders, and avoid the dilution risk for current shareholders.</li> </ul>	<ul style="list-style-type: none"> <li>All the share issue authorities exceeds 50% of issued share capital (to be reviewed on a case by case basis<sup>24</sup>)</li> </ul>	<ul style="list-style-type: none"> <li>The authority with pre-emptive rights exceeds 50% of issued share capital (to be reviewed on a case by case basis)</li> <li>The authority without pre-emptive rights and with priority rights or with a specific object exceeds 20% of issued share capital.</li> <li>The authority without pre-emptive rights and without priority rights exceeds 5% of issued share capital (to be reviewed on a case by case basis)</li> <li>The authority is likely to be used as an anti-take-over measure</li> </ul>
Share Repurchase Plan	<ul style="list-style-type: none"> <li>Share repurchase represents best use of company resources and is limited both in volume and duration</li> </ul>	<ul style="list-style-type: none"> <li>The maximum upward and downward deviation exceeds 5% of the average market price over a representative period or 10% if the resolution refers to a day price.</li> </ul>	<ul style="list-style-type: none"> <li>The authorization would be executable during a takeover period.</li> <li>The buyback exceeds 10% of the issued capital (including shares held by subsidiaries)</li> <li>Use of Financial derivatives for share repurchases.</li> </ul>
Share issues reserved to employees	<ul style="list-style-type: none"> <li>The authority to issue share does not create significant imbalances between categories of shareholders</li> </ul>	<ul style="list-style-type: none"> <li>Cumulative volume exceeds 10% of issued capital AND discount over 10% (to be reviewed on a case by case basis<sup>4</sup>)</li> </ul>	

<sup>24</sup> Exceptions from these guidelines may be granted if the board can give a compelling justification for an increase in excess of the guidelines.



Voting issue	For	Abstain	Against
Debt restructuring	<ul style="list-style-type: none"> <li>The level of dilution given the full conversion of securities is not excessive</li> </ul>		<ul style="list-style-type: none"> <li>Dilution risk too high for the ownership interests of existing shareholders and to future earnings.</li> <li>The proposal would result in a change of control at the company.</li> <li>Threat of bankruptcy, potential impact on shareholder value and if a bankruptcy is the main factor driving the restructuring.</li> </ul>
Mergers and Acquisition	<ul style="list-style-type: none"> <li>The merger or acquisition makes commercial and strategic sense for the company</li> <li>The proposal is beneficial to shareholders' earnings stream and the impact on voting rights is not disproportionate</li> <li>The combined company has a better governance structure</li> </ul>		<p>Given the complex nature of most merger and acquisition proposals, such issues will be reviewed on a case by case basis from a transparency, corporate governance as well as financial point of view. Issues that will be taken into account include:</p> <ul style="list-style-type: none"> <li>The impact of the merger on shareholder value</li> <li>The offer price i.e., cost vs. premium</li> <li>Financial viability of the combined companies as a single entity.</li> <li>An analysis of the arm's length nature of the transaction, potential conflicts of interest and an assessment of the deal maker's "good faith"</li> <li>The presence or lack of a fairness opinion.</li> <li>Proposed changes in corporate governance and their impact on shareholder rights.</li> <li>Impact on community stakeholders and employees in both workforces</li> </ul>
Corporate Restructuring	<ul style="list-style-type: none"> <li>No conflicts of interest among the various parties</li> <li>The restructuring does not create significant imbalances between categories of shareholders</li> <li>Shareholder value is being preserved.</li> </ul>		<p>Votes concerning corporate restructuring are considered non-routine and evaluated on a case by case basis. Issues that will be taken into account include:</p> <p><u>Spin-offs</u></p> <ul style="list-style-type: none"> <li>Potential tax and regulatory advantages</li> <li>Planned use of proceeds</li> <li>Market focus and managerial incentives</li> </ul> <p><u>Asset Sales</u></p> <ul style="list-style-type: none"> <li>Impact on the balance sheet and working capital</li> <li>Value received for the asset and the potential elimination of diseconomies.</li> </ul> <p><u>Liquidations</u></p> <ul style="list-style-type: none"> <li>Management's efforts to pursue other alternatives</li> <li>Appraisal value of the assets</li> <li>The compensation plan for executives managing the liquidation.</li> </ul>



### C) APPOINTMENTS AND REMUNERATION OF DIRECTORS AND EXECUTIVES

Voting issue	For	Abstain	Against
Board elections	<ul style="list-style-type: none"> <li>• The Board of directors (or supervisory Board) is independent from management and represents the interests of majority and minority shareholders.</li> <li>• Specialized committees are composed of a majority of independent members with an independent chairman (The audit and the remuneration committees do not comprise an executive director)</li> <li>• Candidates are proposed by an independent nomination committee for a mandate of 4 years maximum.</li> <li>• The board size is composed of less than 18 members.</li> <li>• The chairman and CEO roles are split and/or there is a sufficient counter-balancing structure.</li> <li>• The director hold less than five director mandates in other listed companies; or three director mandates outside their group for executive directors.</li> <li>• There is sufficient biographical information for shareholders to vote on an informed basis</li> <li>• Shareholders can vote separately on the election of individual directors</li> </ul>		<ul style="list-style-type: none"> <li>• The candidate is not independent<sup>25</sup> and:               <ul style="list-style-type: none"> <li>- the board comprises less than 50% independent directors (non-controlled companies)</li> <li>- the board comprises less than 33% independent directors (controlled companies or in cases of a board with significant compulsory employee representatives)</li> </ul> </li> <li>• A lower threshold can be applied depending on local code and markets practices (i.e. Threshold of 20% for Japan)</li> <li>• The director had a very low level of attendance. (Below 75%)</li> <li>• The director has failed to meet her/his fiduciary duties which raises doubts about her/his ability to serve the best interests of stakeholders</li> </ul>

<sup>25</sup> Factors that may compromise independence include :

- To represent a significant shareholder To be an employee or corporate officer of the corporation, or an employee or director of its parent or a company that it consolidates, and not having been in such a position for the previous five years
- To be a chief executive officer of a company (B) if one of the following requirements is complied: The concerned company (A) is a legal entity directly or not directly director in the company (B); An employee of the company A is a director of the company B (currently or less than 5 years); An executive of the company A is a director of the company B (currently or less than 5 years);
- To be a customer, supplier, investment banker or commercial banker that is material for the corporation or its group, or a significant part of whose business the corporation or its group accounts
- To be related by close family ties to a corporate officer
- To have been an auditor of the corporation within the previous five years
- To have been a director of the corporation for more than twelve years



Voting issue	For	Abstain	Against
Discharge of Board and Management	<ul style="list-style-type: none"> <li>There is no contentious issue about the board or the management of the company.</li> </ul>	<ul style="list-style-type: none"> <li>There are serious questions about actions of the board or management for the year in question.</li> <li>Legal action is being taken against the board by other shareholders.</li> <li>The auditors made serious reservations about the financial statements or refused to certify the accounts.</li> </ul>	
Director fees	<ul style="list-style-type: none"> <li>Linked to the attendance of directors to Board and committees, and to the importance of carried out missions, and in line with benchmarks (based on country practices)</li> <li>Full disclosure of all remuneration components for each director serving on the board in order to vote in favor of a resolution approving remuneration. The different components making up the pay need to be identified and their respective policies explained. The pay should be transparent enough for shareholders to allow them to distinguish the remuneration of executives from that of non-executive directors.</li> </ul>	<ul style="list-style-type: none"> <li>Not linked to attendance</li> </ul>	<ul style="list-style-type: none"> <li>Not linked to attendance and deemed excessive</li> </ul>
Remuneration of Executives directors	<ul style="list-style-type: none"> <li>The remuneration scheme has been recommended by a remuneration committee composed of at least 50% independent members and does not comprise an executive director.</li> <li>The remuneration schemes are in line with long term company performance (e.g. the remuneration committee has considered the impact of share repurchases undertaken during the previous year on relevant performance targets for incentive schemes)</li> <li>The additional pension schemes respect the following principles: The beneficiary has a significant seniority within the group; is employed with the company at the time of retirement; his rights may only account for a reasonable limited percentage of the fixed compensation; the period taken into account for the calculation cover several years; the group of potential beneficiaries must be broader than the sole executive.</li> <li>The company has an extra-financial performance oriented compensation policy</li> </ul>	<ul style="list-style-type: none"> <li>The remuneration scheme is disproportionate with regards to performance (e.g. based on share value and/or intrinsic value) and relevant peer group</li> <li>The termination payments for executive directors or the Chairman of the Board may not exceed two years of compensation fixed and variable (stock options and other compensations are excluded)<sup>26</sup>. The termination payments must also be conditional on seniority criteria and explicit performance requirements.</li> <li>The termination payments for an executive director or the Chairman of the Board who is taking his retirement.</li> </ul> <p>NB. The proposed resolution is assessed in light of the experience and degree of independence of the remuneration committee.</p>	

<sup>26</sup> Case by case basis based on market practice (e.g. one year in UK and Netherlands)



Voting issue	For	Abstain	Against
Stock option Plans and free shares	<ul style="list-style-type: none"> <li>• The stock option plan has been recommended by a remuneration committee composed of at least 50% independent members and does not comprise an executive director.</li> <li>• The stock option plan must be readable for shareholder, with specific and pre-established criteria (quantitative, simple, accurate and objective) and reassessed periodically.</li> <li>• The stock option plan meets the following conditions:               <ul style="list-style-type: none"> <li>- No discount for executives</li> <li>- Sum of vesting and holding periods at least 3 years</li> <li>- Clear exercising objectives</li> </ul> </li> <li>• The authorities for executive directors are separated from those for employees. Otherwise, the stock options and the free shares allotted to executive directors are limited explicitly.</li> </ul>		<ul style="list-style-type: none"> <li>• Stock option plans that meet at least ONE of the following conditions:               <ul style="list-style-type: none"> <li>- Cumulative volume of proposed and outstanding stock option plans and free shares exceeds 10% of issued capital including 3% maximum for corporate officers<sup>27</sup>.</li> <li>- Volume of stock option plans per year exceeds 2.5% of issued capital.</li> <li>- Free shares distribution per year exceeds 1% of issued capital.</li> <li>- Grants of stock options and free shares are not linked to the achievement of performance criteria.</li> <li>- Possibility to re-test exercising conditions</li> <li>- Existence of a discount for executives</li> <li>- Sum of vesting and holding periods less than 3 years</li> </ul> </li> </ul> <p>NB. The proposed resolution is assessed in light of the existence and degree of independence of the remuneration committee.</p>

<sup>27</sup> To be reviewed on a case by case basis depending on historic burn rate



## D) OTHER ISSUES

Voting issue	For	Abstain	Against
Changes to Company Statutes	<ul style="list-style-type: none"> <li>By-laws that respect the “one share – one vote – one dividend” principle</li> </ul>	<ul style="list-style-type: none"> <li>Resolutions that carry adverse impacts on shareholder rights (To be considered on a case-by-case basis in light of information provided by the company)</li> <li>Multiple Voting Shares</li> <li>Non-Voting Depository Receipts</li> <li>Ownership ceiling</li> <li>Voting right ceiling</li> <li>Priority shares</li> <li>Golden share</li> </ul>	
Related-party Transactions and other Resolutions	<ul style="list-style-type: none"> <li>There is full disclosure of information relevant to the resolution and such information is presented in a fair and balanced way</li> </ul>	<ul style="list-style-type: none"> <li>Insufficient disclosure of relevant information</li> </ul>	<ul style="list-style-type: none"> <li>Resolution bundled together that include a substantial and unacceptable proposal</li> <li>Blind resolutions</li> </ul>
Shareholder proposals	<ul style="list-style-type: none"> <li>Appropriate for general assembly</li> <li>Alignment with shareholders long-term interests</li> <li>Resolutions introduce or facilitate legal proceedings to compensate shareholders for damage suffered by the company, to cancel resolutions of a general meeting, to cancel board decisions, and to appoint a provisional director or expert (control function)</li> <li>Resolutions that help to improve social and environmental performance while contributing to the protection of long term shareholder value</li> </ul>	<ul style="list-style-type: none"> <li>Shareholding disclosure thresholds beyond 20 percent or below 1 percent of the share capital.</li> </ul> <p>Any other shareholder proposal: To be considered on a case-by-case basis in light of:</p> <ul style="list-style-type: none"> <li>Justification by its authors</li> <li>Board support or justification of opposition</li> </ul>	

Any item that is not covered by these guidelines will be voted on a case by case basis taking into account the BNPP AM key proxy voting principles.

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