BNP PARIBAS INVESTMENT PARTNERS' CLIMATE CHANGE STRATEGY - December 2016

BNP PARIBAS
INVESTMENT PARTNERS

The asset manager for a changing world

FOREWORD

The 21st session of the Conference of the Parties (COP21) was pivotal in the fight to curb global warming, as 195 countries undertook to collectively build a low-carbon global economy. We no longer ask whether the transition will happen, but how long it will take, who will finance it, and how. Reaching agreements was mainly down to governments; implementing it requires collective action, including, critically, by investors.

Paris made history by establishing a clear, immovable goal and direction of travel, but it was also notable for how efficiently the United Nations Framework Convention on Climate Change (UNFCCC) built inclusiveness beyond governments and gave stakeholders a sense of ownership and belief that future success depends upon them.

BNP Paribas Investment Partners was among the Non-State Actors (NSAs) invited to participate. We responded by publicly declaring our commitment to measuring and publicly disclosing the carbon footprint of our investment portfolios and to take actions to gradually reducing their carbon intensity. We were proud to be among the first mainstream asset managers to sign the Montréal Carbon Pledge in May 2015, and reiterated our commitment by joining the Portfolio Decarbonization Coalition in November that year.

We also formalised our climate change strategy of gradually moving our portfolio holdings towards a below 2 degree scenario in line with the Paris agreement. The strategy, described in this document, is based on three-folds, which translate into actions and initiatives on allocation of capital, responsible stewardship as well as commitment and transparency.

With the release of this strategy, we highlight the depth of our long-term commitment to contribute to limiting the adverse impacts of global warming.

I feel honoured to have this opportunity to present our climate change strategy and proud of the work achieved by BNP Paribas Investment Partners so far.

Responsibility is inextricably linked with our fiduciary approach to delivering sustainable solutions to our clients in a changing world. We have high ambitions and have not deviated from our straight-line path towards sustainable value creation.

Frederic Janbon
Chief Executive Officer,
BNP Paribas Investment Partners

INTRODUCTION

The Universal Climate Agreement adopted in Paris in December 2015, sets up an agreed goal of restricting global warming to "below 2 degrees Celsius above pre-industrial levels, and even to strive to limit it to 1.5 degrees".[1]

The agreement came into force in November 4th 2016, Implementation has started now. Each Party [2] has committed to contribute to quantifying overall reduction targets or to peak emissions at a specific date. The European Union is committed to a 40% reduction in its emissions by 2030, and an 80%-95% reduction by 2050 (from 1990 levels). We expect regulation and climate-related policy to increase significantly in the coming years. While the EU has issued relatively comprehensive climate policies, we anticipate a tougher and stricter enforcement of current regulations, including sanctions; in addition to new regulation at both EU and national country level. No investor can ignore the fact that all sectors, including finance, face an escalation of regulatory requirements at a national, regional and international level. Regulation such as the EU's ruling on greenhouse gas emissions can affect companies by putting a price on CO_2 through carbon markets or carbon taxes, or Article 173 on institutional investors' disclosure requirements in France. Climate-related regulation is setting higher operational standards, and failure to comply carries not just higher operating costs but possibly even the withdrawal of a licence to operate. Additional risks associated with not taking action include potential collateral damage such as the loss of reputation or of competitive advantage.

We equally expect governments to deploy market and fiscal incentives as well as public money to attract private capital to finance the transition. The regulatory drivers of incentivisation vary from tax relief on returns from low-carbon investments to incentives to scale up demand for green financial products. We believe there are plenty of opportunities for investors to contribute to financing the transition to clean energy while generating sound financial returns.

If we continue as we are, a move towards the 4 degree Celsius level or even higher is likely, risking a reduction in world gross domestic product of anywhere between 4% and 50%, compared to what it would have been without global warming. In a plausible worst case scenario, with around 3% likelihood, the current contingent value impairment to an investment portfolio due to global growth declining later this century as a result of global warming is around 10% and is increasing by 0.5% per annum.[3] According to a Cambridge study, short-term shifts in market sentiment induced by awareness of future climate risks could lead to economic shocks and losses of up to 45% in an equity investment portfolio value in the short term (a 23% loss for a fixed-income portfolio).[4]

The Paris Agreement has provided a clear and immoveable target. It has set up the direction of travel. We believe investors can play an important role in delivering it.

This document sets out in detail our response to the risk of climate change and our approach to combat it.

> Given the seriousness of the risks, it is our duty to factor climate change into our broad investment actions as a proven risk. We believe it is our fiduciary duty to preserve the value at risk in our investments.
> Firstly, we ought to fully understand the impacts on our portfolios. Secondly, we need to be able to assess those impacts to be able to fully integrate them into our investment decision-making process. But we equally need to promote and scale up our investments in those technologies that will make the transition to clean energy happen and those companies that are better aligning themselves to a below 2 degree limit.

[1] Paris Agreement
http://unfccc.int/meetings/paris_nov_2015/items/9445.php
[2] Party refers to countries except for EU members, which are all represented by the European Union, thus being one party

[3] Preventable Surprises, October 2015, Institutional Investors and Climate-related Systemic Risk, p.1
[4] http://www.cisl.cam.ac.uk/publications/publication-pdfs/unhedgeable-risk.pdf

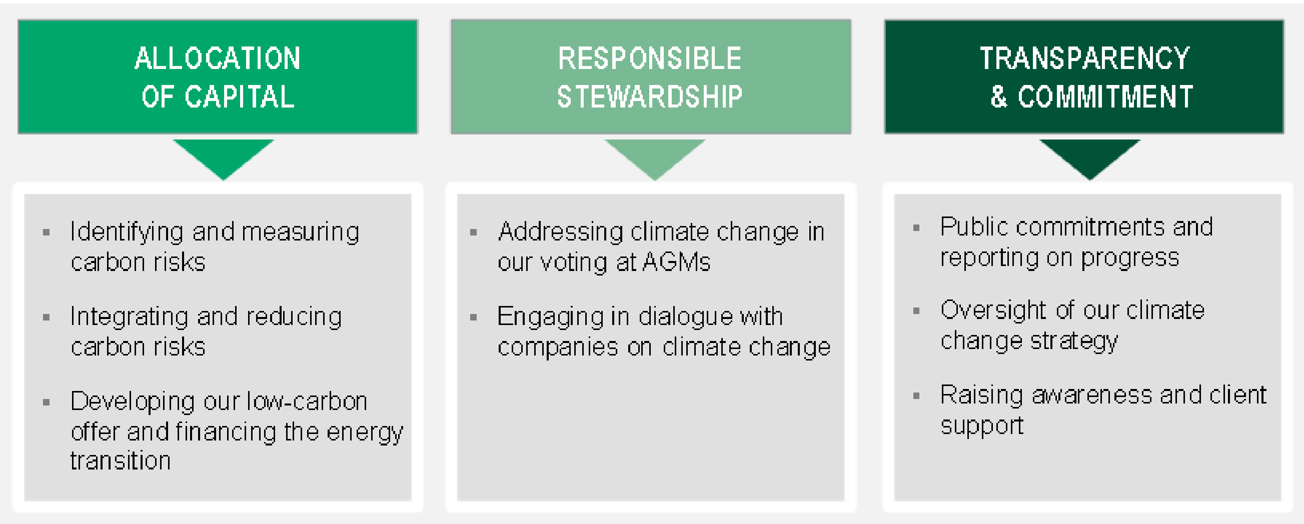
OUR CLIMATE CHANGE STRATEGY

Our strategy includes all of our actions and policies geared to helping tackle climate change, providing a conceptual and an operating framework. Our climate change strategy is an integral part of our overall Responsible Investment Policy and is based in our long-term approach to business and investment.

We believe that exceeding 2 degrees Celsius of global warming above pre-industrial levels will seriously affect humanity and the global economy. This, in turn, might affect the value of investments in the long run. We therefore believe that it is our duty to better understand, assess and manage climate change risks. We are working towards measuring, disclosing and reducing carbon risks in our portfolios; and encouraging companies to report and reduce their carbon footprints

The overarching objective of the climate change strategy is to establish a **business action plan** that will help BNP Paribas Investment Partners to gradually align its investments with the below 2 degrees warming limit set by our governments.

A three-pillar strategy



ALLOCATION OF CAPITAL

The first and most important step is to fully understand, identify and evaluate carbon risks. Only then can we work towards adapting our investments. Therefore, we are firstly working towards identifying and measuring carbon risks in our portfolios.

MEASURING THE CARBON FOOTPRINT OF OUR PORTFOLIOS

A necessary step towards assessing climate risks in our portfolios is to measure the carbon footprint of our portfolios. In May 2015 BNP Paribas Investment Partners became a signatory to the **Montréal Carbon Pledge**.[5] We were one of the first mainstream investment managers to sign this pledge.

By signing, we committed to progressively measuring and publicly reporting the carbon footprint of our open-ended funds in an informative and explanatory way.

In late 2015, we began by reporting the carbon footprint of 26 equity funds in our Parvest range.[6] We selected these funds because:

- We have access (estimated or provided by the companies themselves) to carbon data for more than 90% of the companies in the benchmark indices.
- Less than 50% of the benchmark carbon data to which we have access is estimated - that is, the figures used are largely based on the information provided by the company rather than estimated.

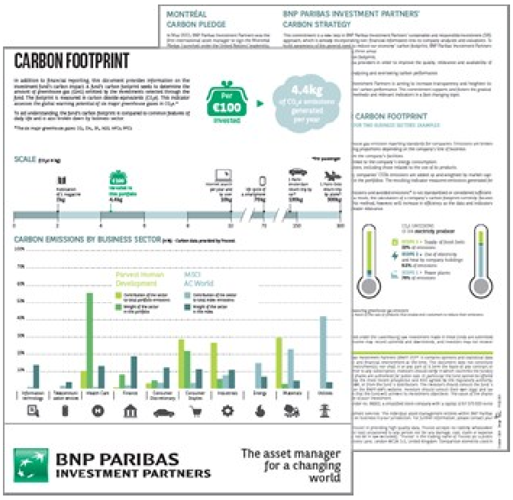
We have identified several methodological challenges to our decarbonisation efforts. Carbon reporting has still not been standardised. The quality, scope, measurement and aggregation of companies' carbon footprints across asset classes and strategies remain challenging. The lack of an agreed carbon benchmark also renders impossible any comparison or sound evaluation of the real carbon performance of a portfolio.

While there is currently no consensus on how exactly to measure the carbon footprint of an investment portfolio, there is also a lack of reliable carbon data available from companies. Therefore the biggest challenge is to have access to reliable data on direct and indirect emissions - known as scope 1 and 2 respectively - of the companies we invest in. While disclosure levels are satisfactory among European companies, it may be extremely difficult to obtain data outside Europe. To this end, we are working with an external data provider who not only collects the data for us, but estimates missing information. This problem will be overcome in the medium term given the strong pressures for disclosure that companies are experiencing from regulators, stock exchanges and investors. Equally, we are pressing companies to provide us with data by direct engagement with them, as well as through exercising our voting rights (please see part 2. Responsible Stewardship).

We aim at disclosing the carbon footprint of all our open-ended funds, assuming that they fulfil our eligibility criteria previously outlined.

In October 2016, we published a second set of carbon footprints, bringing to 100 the number of funds for which the carbon footprint is available.

Example of a carbon footprint reporting



5 The Montréal Carbon Pledge was launched in September 2014 at the Principles of Responsible Investment (PRI) in Person in Montréal. It aims to encourage a voluntary commitment from investors to measure and publicly disclose the carbon footprint of their investment portfolios on an annual basis. http://montrealpledge.org/

6 http://sustainable-responsible-investments.parvest.com/carbon-footprint-en

IDENTIFYING CARBON RISKS AND DECARBONISING OUR PORTFOLIOS

Following our signature of the Montréal Carbon Pledge, we signed the **Portfolio Decarbonization Coalition** (PDC).[7] By signing the PDC, members commit to measuring and disclosing, via the Montréal Carbon Pledge, the carbon footprint of their portfolios on an annual basis and taking action to decarbonise their investments.

"**Portfolio decarbonization** can be achieved by withdrawing capital from particularly carbon-intensive companies, projects and technologies in each sector and by re-investing that capital into particularly carbon-efficient companies, projects and technologies of the same sector. It can also be achieved through targeted engagement by investors with portfolio companies. When large institutional investors start to engage and/or re-allocate capital on the basis of companies' GHG emissions it provides a strong incentive for those companies to re-channel their own investments from carbon-intensive to low-carbon activities, assets and technologies."
UNEP-led Portfolio Decarbonization Coalition

We started by divesting from thermal coal mining in all our Socially Responsible Investment (SRI) funds and by applying a strict policy on coal power. In addition to our established policy for all "sensitive or controversial activities" as defined jointly with our parent company BNP Paribas, our coal policy from now on excludes all mining companies that generate more than 10% of their revenues from thermal coal and power producers that emit more than 600kg of CO_2/MWh.
We intend to progressively extend this policy to our open-ended funds.

We are committed to the ongoing development of our capacity to assess climate change risks and opportunities and to this end have developed an analytical methodology for 'decarbonising' equity portfolios to offer value-adding insights for our institutional clients by identifying where carbon risk lies in their portfolios.

"Having signed the Montréal Carbon Pledge, adherence to the PDC is the logical next step for us. We are strongly committed to collectively helping to limit global warming to 2 degrees and the PDC gives us the opportunity to work to foster low-carbon products and integrate carbon pricing and climate risks into our investments. "
F. Janbon, **CEO, BNP Paribas Investment Partners**

We equally aim to examine how stranded some of our assets might be at both sector and company level. Much work needs to be done in this critical area. We aim to progressively identify them, in particular in the energy and utilities sectors, in order to inform our investment decisions.

We nevertheless acknowledge the limits of what one participant can achieve and therefore the power of joint action. By signing, we aim to benefit from other investors' and experts' insights and experience while sharing our own knowledge. Primarily we hope to build a critical mass of institutional investors that can collectively deliver a strong message to companies regarding the need to prepare them for a below 2 degree world, and to policymakers of the need for a clear, ambitious and permanent below 2 degree policy framework.

Note on sector policies
BNP Paribas Investment Partners implements a series of **ESG standards** related to investments in **sensitive sectors**. While the policies cover a comprehensive set of standards aiming at managing ESG risks, some of them include specific mandatory and evaluation requirements linked to climate change: palm oil and wood pulp, coal-fired power generation, mining, agriculture and oil sands.
Please see: http://www.bnpparibas-ip.com/en/corporate-social-responsibility/a-responsible-investor/

[7] Founded in 2015, the Portfolio Decarbonization Coalition (PDC) is a multi-stakeholder initiative that seeks to reduce global greenhouse gas emissions by mobilising a critical mass of institutional investors committed to gradually decarbonising their portfolios. http://unepfi.org/pdc/

DEVELOPING OUR LOW-CARBON PRODUCT RANGE AND FINANCING ENERGY TRANSITION

As an asset manager, we are working towards being able to inform and provide our clients with a thorough analysis of the impacts of climate change on their investments, as well as to encourage them to decarbonise their portfolios and provide them with a wide range of strategies to be able to do so.

We commit to continue working on widening and prioritising our low-carbon product offer, encompassing a complete range of investment solutions in mandates, dedicated and open-ended fund through thematic or best-in-class funds, and low carbon ETF.

Our low-carbon offer currently has assets under management totalling over EUR 25 billion, broken down as follows:

BNPP IP's low-carbon investments

Category	*AUM in € million*
SRI open-ended funds	*17,414*
Environmentally-focused funds	*2,754*
SRI Bespoke mandates	*5,080*
Green bonds	*409*
Total	*25,657*

Source: BNP Paribas Investment Partners - Data as of 31/12/2016

Our SRI open-ended funds invest in large and medium-cap companies which are best placed in their respective sectors to reduce their emissions. For all these funds, the following three policies apply:

- Divesting from all companies that generate more than 10% of their revenues from thermal coal mining
- Divesting from all utilities whose carbon intensity when producing electricity is higher than 600 $kgCO_2/MWh$; if below this level, divesting if installed coal capacity is above 30% and coal production is higher than 30%, and carbon intensity when producing electricity is higher than 400 $kgCO_2/MWh$
- The worst-performing companies from an ESG viewpoint of each sector are excluded from the SRI investment universes.[8] Carbon-related indicators are an important factor in stock selection, accounting for up to 56% of the overall score for utilities and 21% for oil & gas.

In addition, as of 31 December 2016, we have EUR 1,343 million invested in ESG sovereign bonds for which national strategies and performance in carbon reduction and energy efficiency represent 42.5% of the overall score that determines their eligibility.

The International Energy Agency estimates that between now and 2050 we will require around USD 44 trillion or USD 1.3 trillion per year, of investments to finance energy transition. With assets of USD 55 trillion, the international asset management industry has an important role to play in financing green growth initiatives.

We have developed a range of specifically 'green' funds that invest in renewable energy, energy efficiency and other environmental technologies that are central to the transition. We have committed to strongly promote green funds in our marketing and commercial activities and encourage our clients to invest in them.

[8] For all our Best-In-Class funds, the bottom one third in each sector's ESG benchmark is excluded

Parvest Global Environment	Investing in companies worldwide with activities in renewable energy, energy efficiency, water treatment, pollution control, waste management, environmental services
Parvest Environmental Opportunities	Investing in small cap companies worldwide with activities in renewable energy, energy efficiency, water treatment, pollution control, waste management, environmental services
BNP Paribas Easy Low Carbon 100 Europe UCITS ETF	Investing in the 100 most cutting-edge European companies within each sector in terms climate change strategy
Parvest Green Tigers	Investing in Asian companies which provide solutions on energy efficiency, renewable energy, environmental support services, sustainable agriculture, sustainable transport and water
BNP Paribas Immobilier Responsable Sustainable Real Estate	Investing in European real estate companies that reduce their carbon footprint and energy consumption or contribute to greener building

Some examples of BNPP IP's green funds

Low Carbon ETF

In 2008, Euronext was the first exchange to launch a pan-European index focusing on CO_2 emissions, designed with international experts and in close collaboration with NGOs. The Low Carbon 100 Europe Index® measures the performance of Europe's 100 largest blue chips with the lowest CO_2 emissions in their respective sectors or sub-sectors. Low Carbon 100 Europe offers investors a unique index-based solution. It is the first index aligned with the International Energy Agency's recommended scenarios for limiting global warming to 2 degrees Celsius.

Aware of how innovative and suitable for underlying index-linked products such as ETFs (exchange-traded funds) the Index was, BNP Paribas Investment Partners launched the first low carbon ETF fund in Europe, based on the index: BNP Paribas Easy Low Carbon 100 Europe UCITS ETF. Investment in the ETF accounts for emissions almost 50% lower than the selection universe.

THEAM, BNP Paribas Investment Partners' manager of index-based investment solutions, won the 2016 Innovation Award at the French 'Agefi's Grands Prix des ETF'. The award recognises leading innovations in ETF.

The Euronext Low Carbon 100 Europe® index

The index methodology (briefly illustrated here) is developed by a multi-stakeholder Expert Committee,[9] which also selects the 'green companies'.

Euronext Low Carbon 100 Europe® index - Source: BNP Paribas Investment Partners

By end of 2015, an updated version of the index was adopted, incorporating a more in-depth assessment of each company's carbon footprint. This identifies, for the first time, businesses making a positive contribution to the transition process not only through their own day-to-day performance, but also through the products they sell. Selection of index component companies also reflects the emissions avoided as a result of their innovative approach to products and services.

> **Pascal Canfin**, chief executive of WWF France, who chairs the Expert Committee of the Low Carbon index, said: "The financial sector needs new compasses to guide its course and shift the focus to investments that comply with the 2 degree target for global warming. This new index is the first in the world designed to reflect an arc of investments that do just that."

[9] Our expert in-house, Thibaud Clisson, from the BNPP IP' Sustainability Research team is a member of the Index Committee

Green bonds

In 2014, global bond issuance totalled close to USD 19 trillion worldwide.[10] One year later, green issuance had risen to almost USD 41.8 billion,[11] with corporate issuers accounting for half of the value of green bond issuance in 2014.[12] Green bonds, which raise funds for new and existing projects with an environmental purpose, nevertheless represent less than 0.19% of overall bond issuance.[13] We believe green bonds have the potential to make a real difference in diverting funds from institutional investors towards green investments, particularly in infrastructure.

The first reason is that these days, most infrastructure project financing is debt-based. According to McKinsey, the average debt-to-equity ratio for a non-green infrastructure project is 70:30, while for renewable energy projects the proportion of debt can be up to 75:25.

The second reason lies in the capacity of bond markets to provide sources of cheap, long-term capital. Green bonds, for example, make it possible to raise funds directly in the capital markets without having to use a traditional financing structure organised by banks, which can be more expensive. According to the OECD, the reduced cost of capital for renewable energy projects can have a material impact on the cost of producing this type of energy, as financial charges account for between 50% and 70% of production costs.

The third explanation is that debt products can be easily tailored to the needs of institutional investors. Indeed, bonds are the preferred asset class of OECD-country pension funds and insurance companies, which respectively invested 53% and 64% of their portfolio in fixed-income securities in 2013.

We aim to promote, support and encourage, investing in green bonds. We have developed our own methodology – which includes definition, analysis and engagement – that allows us to determine whether or not a bond is eligible as green.

[10] Source : OECD - "Green bonds: Mobilising the debt capital markets for a low-carbon transition " - Policy perspectives - Dec. 2015

[11] This figure represents new green bonds issuance; while the total green bonds outstanding (stock) at the end of 2015 amounted to USD 95 billion. Climate Bonds Initiative, www.climatebonds.net, accessed on July 2016.

[12] CBI, 2015. "Bonds and climate change. The state of the market in 2015 ".

[13] Ie.

Further, we are working to develop a green bonds policy to foster investments through a sector policy deployed across all of our current fixed- income strategies. With EUR 217 billion invested in global fixed-income markets, green bonds seem a logical vehicle for BNP Paribas Investment Partners' contribution to financing the energy transition.

We equally advocate policymakers and international financial institutions to facilitate and incentivise their issuance; in particularly to help smaller issuers by acting as advisers, guarantors or aggregators. One of the most commonly cited obstacles to the green bond market is the inadequately low number of low-carbon projects corresponding to climate change objectives, the relatively small size of the projects and the lack of aggregation mechanisms.

In December 2015, BNP Paribas Investment Partners supported the "**Paris Green Bonds Statement**", an appeal to institutional investors representing more than USD 11.2 trillion of managed assets, aimed at encouraging issuers to work towards better harmonisation of standards in this sector.[14] It also calls for governments to act through policy, risk mitigation and tax credits to support the issuance of green bonds.

In line with the Statement, in May 2016 we joined the **Green Bond Principles** (GBP), voluntary process guidelines that encourage transparency and disclosure and promote integrity in this market.[15] The GBP encompass four components aimed at ensuring the integrity of green bond issuance: Use of Proceeds, Process for Project Evaluation a nd Selection, Management of Proceeds and Reporting.[16]


FROM INVESTORS REPRESENTING US$11.2 TRILLION

The Paris Green Bonds Statement

[14] Please see http://www.climatebonds.net/resources/press-releases/Paris-Green-Bonds-Statement

[15] For more information please see http://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/green-bonds/green-bond-principles/

[16] Ie.

RESPONSIBLE STEWARDSHIP

The BNP Paribas Investment Partners engagement strategy sets current and medium-term priorities for our dialogues with our investee companies. Engagement is one of the three key pillars that encompass our Responsible Investment Policy which has applied to all our open-ended funds since 2011 and is systematically proposed in our bespoke mandates.

This pillar comprises both our overall engagement strategy and the BNPP IP Governance and Voting Policy.

ADDRESSING CLIMATE CHANGE IN OUR VOTING AT AGMS

BNP Paribas Investment Partners believes that voting at Annual General Meetings is a crucial component of our shareholder duties and our investment process. Equally important for us, as part of our ongoing dialogue with the companies in which we invest, is to promote good environmental (including climate change), social and governance practices.

At the end of 2015, we revised our voting policy to specifically address climate change in our voting duties. We updated our policy so that we could use our voting leverage to deliver our climate strategy. Specifically, it stipulates that:

- We will vote "abstain" on the financial statements of a company when:
  - The company does not report properly on its carbon footprint (scope 1 and 2).
  - The company does not communicate nor does it want to engage with us in relation to its business strategy to mitigate and adapt to climate change.
- We will vote in favour of value-enhancing resolutions which ask corporates to reduce greenhouse gas emissions in alignment with a 2 degree world and also to stop lobbying against policy designed to achieve this.
- We will indicate, in advance, a willingness to vote in favour of resolutions requesting disclosure on low-carbon compliant business plans.
- We will always, prior to voting, offer to engage with each company.

In practice, during 2015 we supported 83% of all environmental shareholder proposals; among these all climate-related resolutions which were technically well drafted and aligned with our climate strategy.

These included the "Aiming for A" and 2 degree resolutions.

2 degrees resolutions: 'supportive but stretching'

Since 2015, we have collaborated with the UK-based "**Aiming for A**" initiative and reached out to CERES and US investors this year to support and even co-file resolutions on "2 degree strategic resilience and stress-testing". The resolutions request companies to report their strategic business plans to adjust to the agreed goal of the global climate agreement forged in Paris. In 2015, we supported the resolutions filed at BP, Shell and Statoil; these were passed with almost unanimous shareholder support.

Early 2016, BNPP IP co-filed, alongside and led by the "Aiming for A" coalition, similar resolutions at Rio Tinto, Glencore and Anglo American. The companies' boards supported this year's 'strategic resilience' resolutions as did those of BP, Statoil and Shell in 2015.

Similar resolutions requesting companies to stress-test their business strategies against a scenario where climate change is limited to 2 degrees Celsius or less were filed by shareholders at oil & gas companies' AGMs e.g. ExxonMobil or Chevron.

These are examples of how investors from both sides of the Atlantic are collaborating more closely. It is no surprise as investors are a) increasingly conscious of the benefits of collective stewardship; and b) concerned about the impact of climate change on the value of their investments.

ENGAGING IN DIALOGUE WITH COMPANIES

In relation to climate change, our engagement strategy with the companies we invest in aims to improve:

- Companies' carbon disclosure in line with our duty and commitment to report publicly the carbon footprint of our portfolios
- Companies' overall environmental performance
- Our understanding of what actions companies are taking to align themselves with the goal of a below 2 degree scenario

A significant part of our engagement is conducted in conjunction with other investors and through our memberships of the **Institutional Investor Group on Climate Change** (IIGCC), the **Principles for Responsible Investment** (PRI) and the **United Nations Environmental Programme** (UNEP).

We are active members of three working groups within the IIGCC – the Property working group, Corporate programme and the Policy group; in addition to the UNEP FI Property working group.

Carbon and relevant data disclosure

Disclosure and access to relevant and complete information is crucial to enabling the integration of climate risk into corporate evaluation and investor decision-making. However, it is also critical to enabling us to meet our own commitments on reporting the carbon footprint of our funds and to progressively adjust our portfolios to a below 2 degree scenario.

- **PRI-led collaborative engagement on corporate emissions disclosure**

Jointly with other PRI members we are writing to 131 listed companies globally that do not disclose their carbon emissions (scope 1 and 2) via the Carbon Disclosure Project (CDP)[17], in their company reports, on their website or via submissions to national/regional governments. In addition, investors are invited to call one or more companies targeted by the initiative to reiterate the desire to see emissions data disclosed publicly.

- **Individual and collective engagement on corporate emissions disclosure and energy performance of European real-estate companies**

We engage individually with companies that are part of the EPRA index. Each year we reach out to 20 companies, to communicate and share real-estate sector sustainability best practices with them.

We also conduct engagements in conjunction with other members of the **Global Real Estate Sustainable Benchmark** (GRESB). We are actively encouraging all EPRA (European Public Real Estate Association) companies to achieve greater levels of disclosure and energy efficiency performance.

The GRESB is an industry-driven organisation assessing the ESG performance of real assets globally, including real-estate portfolios and infrastructure assets. BNP Paribas Investment Partners, alongside 200 other members, benefits from their data when analysing real-estate companies and in our engagement process. We are members of the Benchmark Committee.

However, our fiduciary duty as a responsible investor is not restricted only to monitoring environmental data. We have been actively engaging with policy makers at the European Commission to examine the market drivers and select the principal financial instruments to increase energy efficiency investment in the property sector.

[17] www.cdp.net

- **Sector-specific disclosure for utilities, mining and oil & gas sectors**

One of the working groups in which we are most active is the **corporate programme at IIGCC**[18]. The working group has developed specific guidance for engagement with the boards and management of companies in the mining, oil & gas and electric utilities sectors. They display investors' specific expectations for those companies, including data disclosure.

Towards a below 2 degrees strategy: 2 degree stress-testing, stranded assets and energy transition

As investors we need to know how companies, particularly in the most affected sectors, are aligning their businesses with 2 degree climate scenarios. This includes companies' overall strategy, investments planned or envisioned to deliver their strategy, and 2 degree stress testing in relevant sectors. Narrative reporting should complement quantified stress-testing. The results should be fed into corporate strategy through risk management and disclosure.

We have been engaging with oil & gas and mining companies since 2014 to better assess their exposure to potential stranded assets (*assets that might lose their value due to carbon risks*); and to encourage them to develop a strategy to adapt their business to a below 2 degree world. At least once a year, and as part of our own analysis, we meet with all major European players within the three sectors. Moreover, through the IIGCC corporate working group, we are engaging with 10 oil & gas companies, seven European utilities companies and three mining companies. We lead on the group's engagement with Total.

The IIGCC work carried out since 2014 has been published in three sector papers, one for each sector, called "Investor Expectations". The papers, to which we have contributed, summarise our expectations of the companies in relation to different aspects of climate change management: governance, decarbonisation strategy and 2 degree stress testing; operational efficiency, public policy and transparency and disclosure. They are the basis for our engagements and have greatly influenced our voting in this area.[19]

In the next couple of years, we plan to scale up our work on utilities and automobiles while continuing engaging companies within the mining and oil & gas sectors.

Influencing public policy

We are active members of the **IIGCC policy group**. The aim of this programme is to develop and communicate investor positions on policy and regulatory frameworks at the international, regional and national levels to support a shift towards less carbon-intensive investment. The objective is to change market perspective by encouraging the adoption of investment-grade public policy solutions that support an orderly and efficient move to a low-carbon economy. Part of our work consists of advocating specific policies and/or regulatory frameworks.

Global Investor Statement on Climate Change 2014-2015 [20]

- A high-profile statement of investor intent and policy requirements needed to stimulate greater shift in asset allocation.
- Signed by over 400 investors with more than USD24 trillion in assets.
- This represented an important contribution by the global investment community to supporting the **UN Climate Summit** and encouraging strong domestic and international climate and clean energy policies. The statement sets out steps that institutional investors (both asset owners and asset managers) can take to address climate change, and called on governments to support a new global agreement on climate change by the end of the year 2015, in addition to national and regional policy measures.

[18] For more information, including the reports, please see http://www.iigcc.org/programmes/programme/Corporate

[19] http://www.iigcc.org/programmes/programme

[20] See more at: http://www.iigcc.org/publications/publication/2014-global-investor-statement-on-climate-change#sthash.0eIT2SzK.dpuf

Letters sent to G7 finance ministers and G20[21]

We have also signed up to other climate change initiatives such as the Global Statement on Green Bonds. More generally, we aim to specifically influence European policy on climate-related issues. We are pushing for an effective *back loading* system on the European ETS (Emissions Trading System), on vehicle emissions and policy and on how to deliver investment to implement Europe's 2030 climate and energy targets, etc.

Additionally, we are working with our peers to define the principles of climate disclosure at different levels, including at the EU and the G20 levels. For example, we responded to the consultation of the G20 FSB Task Force on climate-related financial disclosures. In line with IIGCC, we support stringent principles for company climate disclosure in the EU as part of the non-financial reporting directive.

Energy Efficiency Financial Institutions Group (EEFIG)

We are active participants in the EEFIG established by the European Commission and the **United Nations Environment Programme Finance Initiative** (UNEP-FI). Its aim is to determine how the challenges involved in obtaining long-term financing for the energy efficiency in the building, industry and SME sectors might be overcome. In May 2015, we launched the EEFIG final report at our offices in Paris[22].

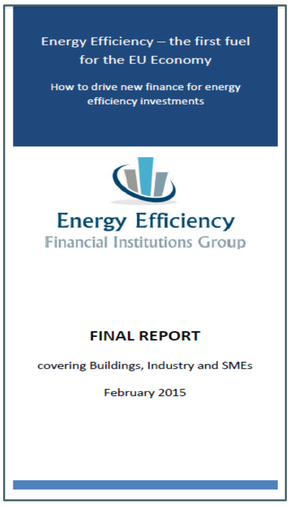
BNP Paribas Investment Partners additionally contributed to the **IIGCC Property Working Group** paper, 'Driving New Finance for Energy Efficiency Investments', which summarises the main conclusions and recommendations relevant to institutional investors of the **EEFIG**[23].

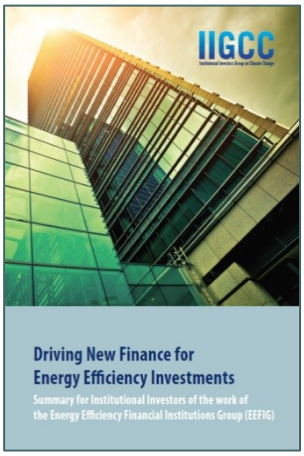
[21] http://www.iigcc.org/publications/publication/open-letter-to-finance-ministers-in-the-group-of-seven-g-7

[22] http://ec.europa.eu/energy/sites/ener/files/documents/Final%20Report%20EEFIG%20v%209.1%2024022015%20clean%20FINAL%20sent.pdf

[23] http://www.iigcc.org/files/publication-files/IIGCC_2015_Driving_New_Finance_for_Energy_Efficient_Investments_final_WEB.PDF

In parallel with the work on energy efficiency in Europe, BNP Paribas Investment Partners founded a sub-group in France - the g-20 - that shares the same purpose within the French market.





TRANSPARENCY AND COMMITMENT

PUBLIC COMMITMENT AND REPORTING ON PROGRESS

We are committed to monitoring and reporting annually on our activities and progress. We will report on the progress made in relation to our policy and, in particular, public commitments:

- Through the **Montréal Carbon Pledge** and our commitment to report the carbon footprint of our open-end funds every year
- Through the **Portfolio Decarbonization Coalition** and our commitment to report annually to UNEP FI on our progress in decarbonising our portfolios

In addition, as signatories to the PRI, we respond to the yearly **PRI Transparency Report** on our progress. In 2015 and 2016, the PRI granted BNP Paribas Investment Partners an **A+ overall score** for its ESG performance.

While a general report will be made public on our engagement and CSR reporting,[24] we will update our climate change strategy every year to demonstrate in detail the progress made in our analysis and our activities.

Any questions on our climate change strategy or BNP Paribas Investment Partners' approach to climate change more generally should be addressed to the Sustainability Research team.

Please contact Helena Vines Fiestas, Head of Sustainability Research, at helena.vinesfiestas@bnpparibas.com

[24] Available at http://www.bnpparibas-ip.com/en/corporate-social-responsibility/a-responsible-investor/

DISCLAIMER

This material is issued and has been prepared by BNP Paribas Asset Management S.A.S. (BNPP AM)* a member of BNP Paribas Investment Partners (BNPP IP)**.

This material is produced for information purposes only and does not constitute:

1. an offer to buy nor a solicitation to sell, nor shall it form the basis of or be relied upon in connection with any contract or commitment whatsoever or
2. any investment advice.

This material makes reference to certain financial instruments (the "Financial Instrument(s)") authorised and regulated in its/their jurisdiction(s) of incorporation.

No action has been taken which would permit the public offering of the Financial Instrument(s) in any other jurisdiction, except as indicated in the most recent prospectus, offering document or any other information material, as applicable, of the relevant Financial Instrument(s) where such action would be required, in particular, in the United States, to US persons (as such term is defined in Regulation S of the United States Securities Act of 1933). Prior to any subscription in a country in which such Financial Instrument(s) is/are registered, investors should verify any legal constraints or restrictions there may be in connection with the subscription, purchase, possession or sale of the Financial Instrument(s).

Investors considering subscribing for the Financial Instrument(s) should read carefully the most recent prospectus, offering document or other information material and consult the Financial Instrument(s)' most recent financial reports. The prospectus, offering document or other information of the Financial Instrument(s) are available from your local BNPP IP correspondents, if any, or from the entities marketing the Financial Instrument(s).

Opinions included in this material constitute the judgment of BNPP AM at the time specified and may be subject to change without notice. BNPP AM is not obliged to update or alter the information or opinions contained within this material. Investors should consult their own legal and tax advisors in respect of legal, accounting, domicile and tax advice prior to investing in the Financial Instrument(s) in order to make an independent determination of the suitability and consequences of an investment therein, if permitted. Please note that different types of investments, if contained within this material, involve varying degrees of risk and there can be no assurance that any specific investment may either be suitable, appropriate or profitable for a client or prospective client's investment portfolio.

Given the economic and market risks, there can be no assurance that the Financial Instrument(s) will achieve its/their investment objectives. Returns may be affected by, amongst other things, investment strategies or objectives of the Financial Instrument(s) and material market and economic conditions, including interest rates, market terms and general market conditions. The different strategies applied to the Financial Instruments may have a significant effect on the results portrayed in this material. Past performance is not a guide to future performance and the value of the investments in Financial Instrument(s) may go down as well as up. Investors may not get back the amount they originally invested.

The performance data, as applicable, reflected in this material, do not take into account the commissions, costs incurred on the issue and redemption and taxes.

* BNPP AM is an investment manager registered with the "Autorité des marchés financiers" in France under number 96002, a simplified joint stock company with a capital of 67.373.920 euros with its registered office at 1, boulevard Haussmann 75009 Paris, France, RCS Paris 319 378 832. www.bnpparibas-ip.com.]

** "BNP Paribas Investment Partners" is the global brand name of the BNP Paribas group's asset management services. The individual asset management entities within BNP Paribas Investment Partners if specified herein, are specified for information only and do not necessarily carry on business in your jurisdiction. For further information, please contact your locally licensed Investment Partner