



Society of Actuaries in Ireland

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# **ESG – are you ready?**

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Vera Hegarty

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# ESG INVESTING – ARE YOU READY?

SOCIETY OF ACTUARIES IN IRELAND

INVESTMENT ACADEMY

BNP PARIBAS ASSET MANAGEMENT

VERA HEGARTY  
DUBLIN, SEPTEMBER 2017



**BNP PARIBAS**  
**ASSET MANAGEMENT**

The asset manager for a changing world

# AGENDA

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1. Introduction to BNP Paribas Asset Management
2. Why are we talking about ESG and Sustainability – what are the drivers?
3. ESG and Sustainability – what on earth is it?
4. Ways to incorporate sustainability into investments
5. How to..?
6. Any questions?

1

# BNP PARIBAS ASSET MANAGEMENT

Investing means the world to us



# A GLOBAL ASSET MANAGER

Fitch Ratings Asset Manager rating: *Highest Standards, Stable Outlook*

€580bn



€580 billion of assets under management and advisory

20+



20+ years of experience managing institutional assets in major markets

3,000



Some 3,000 staff in over 30 countries across Europe, Asia and the Americas

700



A global network of over 700 investment professionals



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Source: BNP Paribas Investment Partners, as of 31 March 2017

13/09/2017

5

# ESG AT BNP PARIBAS ASSET MANAGEMENT

 <b>A LONG ESG HISTORY</b>	▶ A <b>15-year</b> history in addressing investment-related ESG issues
 <b>A GLOBAL SCOPE</b>	▶ Providing extra-financial research across all asset classes and areas. Managing <b>€230 billion</b> of assets integrating ESG analysis
 <b>A RECOGNIZED OPINION LEADER AND ADVOCATE</b>	▶ Member of advisory committees at international bodies such as the <b>PRI</b> , the <b>IIGCC</b> and the <b>FAO/OECD</b>
 <b>REWARDED FOR OUR ESG PERFORMANCE</b>	▶ Ranked first-in-class (A+) by the <b>PRI</b> for our approach to responsible investing; recognised by the <b>UK Financial Reporting Council</b> for our quality approach to stewardship
 <b>A DEDICATED TEAM OF SEASONED PROFESSIONALS</b>	▶ A multi-disciplinary team of <b>8 ESG professionals</b> with financial, economic and legal expertise

Source: BNP Paribas Asset Management, as of 31 December 2016

# COMMITTED TO SUSTAINABILITY

We are all on a journey...

In-house  
ESG  
expertise  
2002

A proxy  
voting  
policy  
2002

Principles of  
Responsible  
Investing (PRI)  
Signatory since  
2006

Responsible  
Investment  
Policy applied to  
all open-ended  
funds since  
2011

Montréal Carbon  
Pledge signatory  
since 2015: first  
CO<sub>2</sub> footprint  
reportings

Portfolio  
Decarbonization  
Coalition member  
since 2015

## Climate conscious

- ☑ Montréal Carbon Pledge: 1<sup>st</sup> global asset manager signatory
- ☑ IIGCC (Institutional Investors Group on Climate Change) co-founder & board member
- ☑ EU Commission/DG Energy/Energy Efficiency Financial Institutions Group active member
- ☑ UNEP-FI (Participating Members of the Finance Initiative, Property working group etc)
- ☑ GRESB (Global Real Estate Sustainable Benchmark)

## Engagement

- ☑ Direct engagement with the companies excluded by our Responsible Investment Policy, and on our 'watch' list
- ☑ Supported initiatives: Clinical Trials Transparency, OECD Agriculture Supply Chain, Access to Medicine Index...
- ☑ Proxy voting: direct vote at +1500 AGMs annually

Source: BNP Paribas Asset Management as of 31 March 2017

...and no-one is 'there' yet



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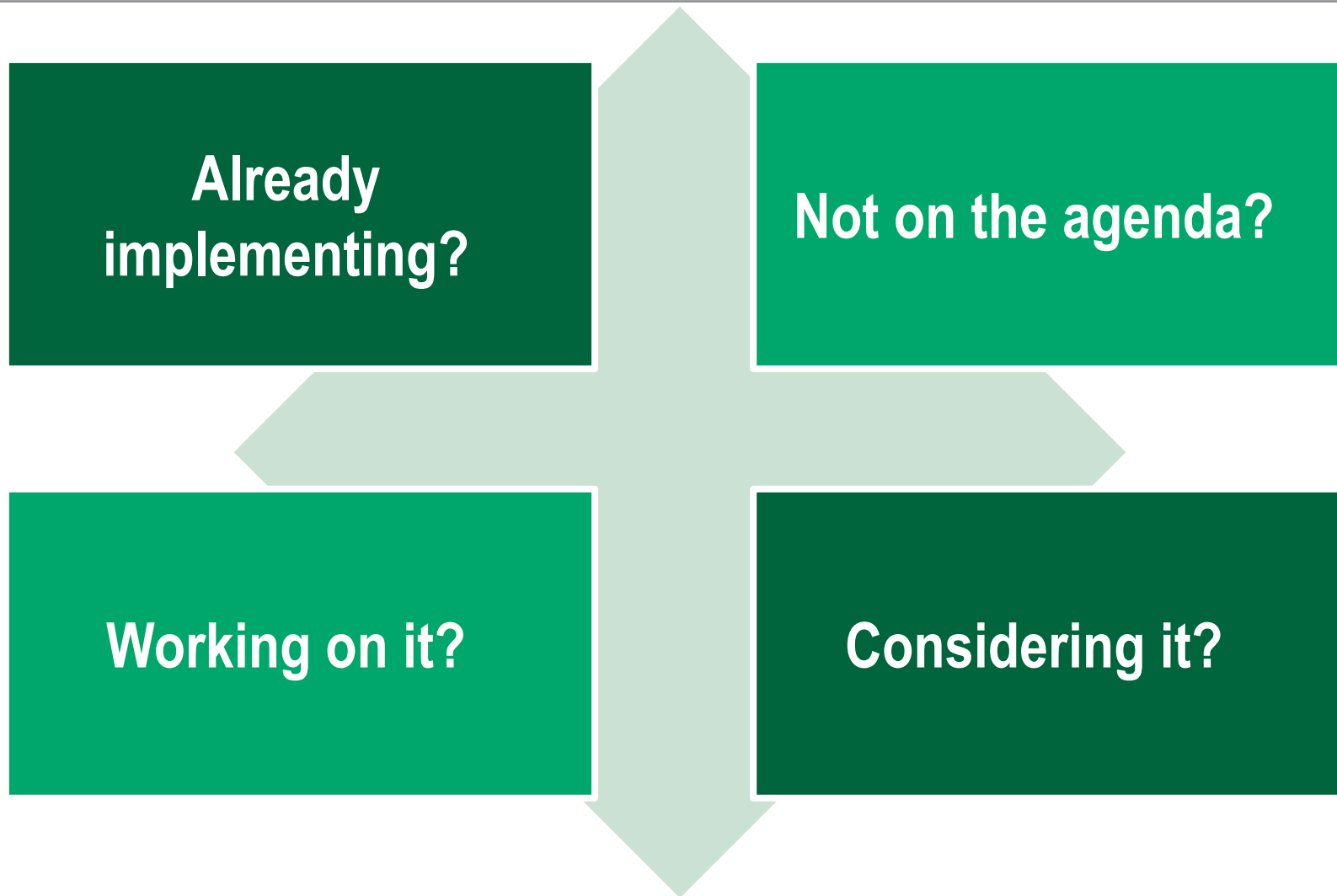
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7

# SUSTAINABILITY – HOW HIGH IS IT ON YOUR AGENDA?

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# THE RELIGIOUS SOCIETY OF FRIENDS (QUAKERS) PHILADELPHIA

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## Annual meeting 1758



What did these people do that changed the landscape in investing?



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9

2

## WHAT ARE THE DRIVERS?



# GEOPOLITICAL DRIVERS?

"We are the first generation to feel the impact of climate change and the last generation that can do something about it." *Barack Obama, Sept 2014*



"China and Europe have pledged to unite to save what German Chancellor Angela Merkel called "our Mother Earth", standing firmly against the US President's decision to take the United States out of the Paris climate change pact." *Sydney Morning Herald, 3 June 2017*



## Global initiatives

Policy is a primary determinant.

Gaps widening between the US, and Europe and Asia?

# LEGAL DRIVERS?

The European Pensions Directive (referred to as IORPs II) came into force in January 2017.

DIRECTIVE (EU) 2016/2341 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL  
of 14 December 2016  
on the activities and supervision of institutions for occupational retirement provision (IORPs)

There is a new **obligation on Member States** to:

- “allow IORPs to take into account the **potential long-term impact of investment decisions on environmental, social and governance factors**”.
- Trustees’ investment decision making processes to **demonstrate ESG factors taken into consideration**
- A pension fund’s Statement of Investment Principles will need to **state how the investment policy takes ESG factors into account**



To be made law by January 2019

Accessed 17/7/17 [http://www.hcmc.gr/aweb/files/tea\\_thesmiko\\_plaisio/files/DIRECTIVE%202016\\_2341%20ENG.pdf](http://www.hcmc.gr/aweb/files/tea_thesmiko_plaisio/files/DIRECTIVE%202016_2341%20ENG.pdf)

# REGULATORY DRIVERS?

Reflecting policy level activity.

Regulatory frameworks increasingly encourage institutional investors to integrate ESG into their investment governance

Why the need for regulatory clarity?

- Consistency of approaches
- Availability of data
- **Reporting**

- The legal framework tells us what we need to do
- The regulator gives us guidance on how to do it



## ESG Reporting Workshop



# INVESTMENT DRIVERS?

## ESG, Corporate Financial Performance and Investment Trends

Academic papers  
reviewed

2,000



Established a positive relationship  
between ESG evaluations and  
corporate financial performance

Recent  
growth in  
ESG assets

25%



The increase in  
assets held in  
ESG related  
investments (*full  
period 2015/2016*)

ESG in  
decision  
making

79%



Asset managers  
and asset owners  
who incorporate  
ESG factors into  
their decision  
making

Projected

>50%



%age of assets  
anticipated by  
asset  
managers to  
be invested or  
marketed as  
ESG by 2019

<sup>1</sup>Sources: Gunnar Friede, Timo Busch & Alexander Bassen (2015) ESG and financial performance: aggregated evidence from more than 2000 empirical studies, *Journal of Sustainable Finance & Investment*, 5:4, 210-233, DOI: 10.1080/20430795.2015.1118917  
2016 Global Sustainable Investment Review. Global Sustainable Investment Alliance



# INDUSTRY DRIVERS?

There is momentum – **1,767** signatories to the UN-backed **PRI**

Representing **\$70tn** in assets globally

352

1,191

224



Gníomhaireacht Bainistiúcháin an Chisteáin Náisiúnta  
National Treasury Management Agency

Ciste Infheistíochta Straitéiseach d'Éirinn  
Strategic Investment Fund

**ASSET OWNERS**

**ASSET MANAGERS**

**SERVICE PROVIDERS**

Ireland Strategic Investment Fund



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Source: <https://www.unpri.org/directory/nJune>

13/09/2017 15

3

## WHAT ON EARTH IS IT?





# SUSTAINABLE, RESPONSIBLE INVESTING.

What on earth is it?



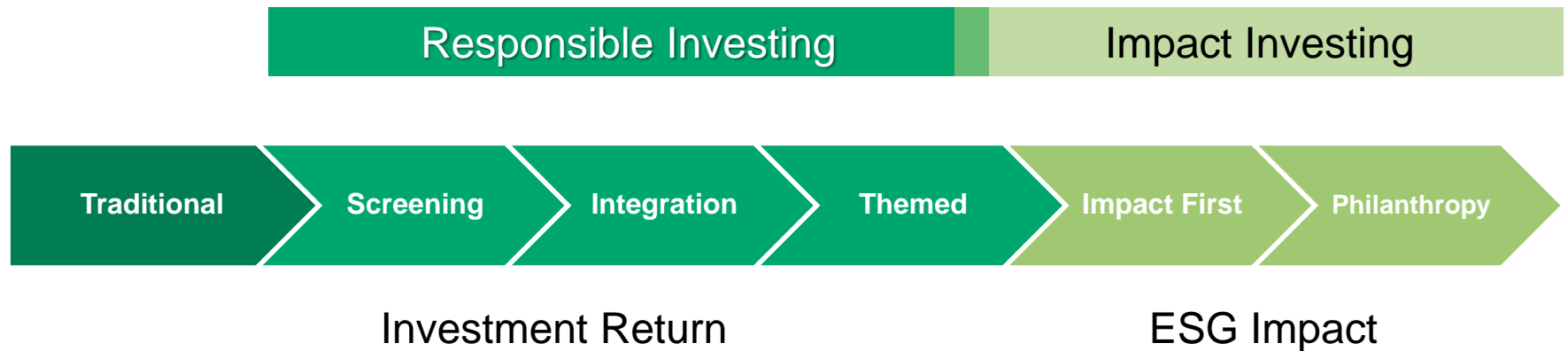
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# A SPECTRUM

## UN-backed Principles of Responsible Investing



Source: *Understanding the impact of your investments*, UNPRI, July 2013

# HOW DID 'ESG' BECOME 'KING OF THE HILL'?

## 2006: The United Nations-supported Principles for Responsible Investment (UN PRI)



Initiative is an international network of investors  
Working to put voluntary and aspirational  
**Principles for Responsible** Investment into  
practice



The goal is a more **sustainable** global financial  
**system**

This is the '**why**' of the **PRI**



To **measure** that **sustainability**, under the UN-  
backed PRI, **ESG** reporting is a requirement

The PRI “*believe that an economically efficient, **sustainable global financial system** is a necessity for long-term value creation. Such a system **will reward long-term, responsible investment** and **benefit the environment and society as a whole***”

Source: Principles for Responsible Investment, June 2017

4

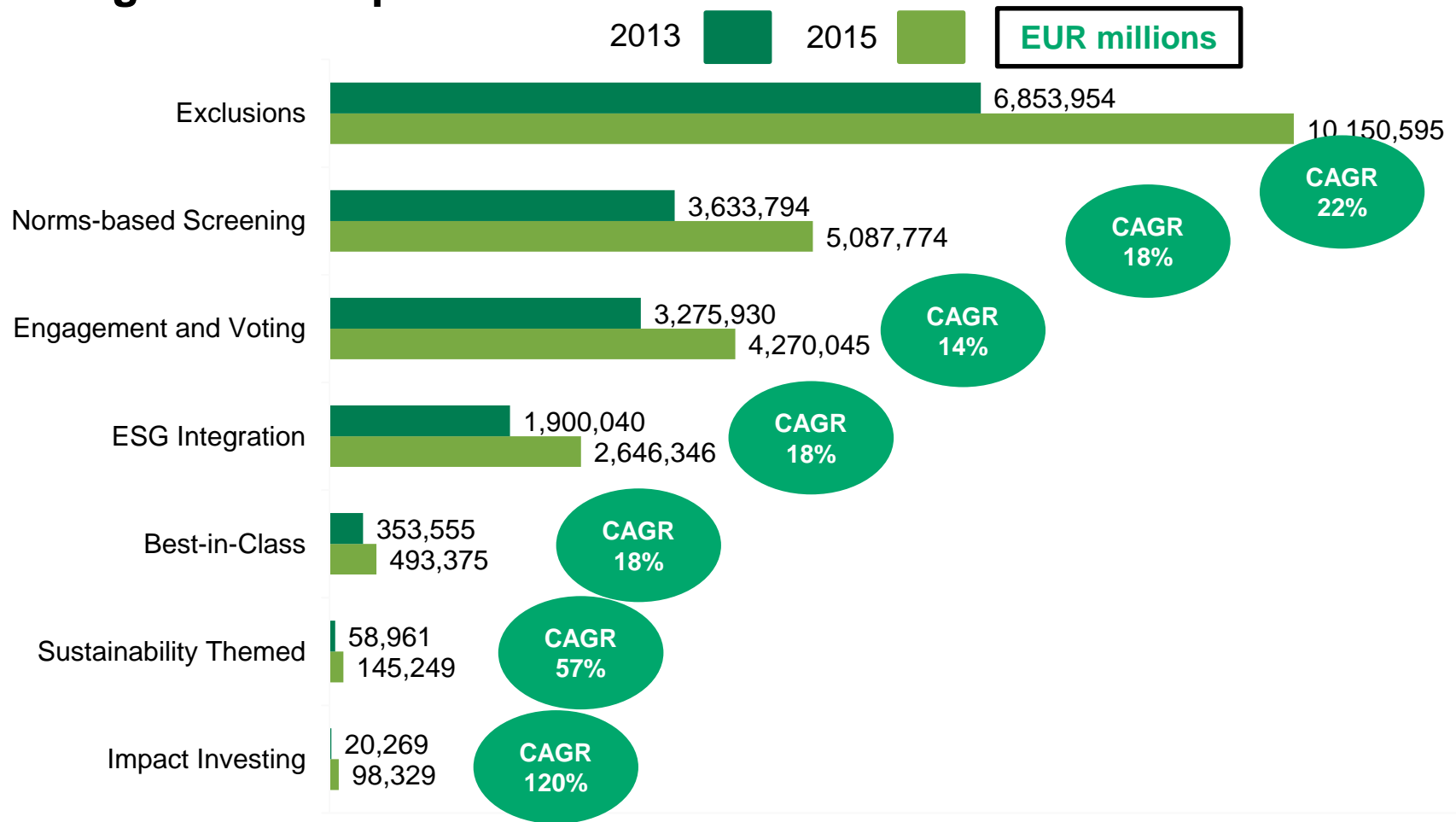
# SUSTAINABLE INVESTING – HOW DO OTHERS DO IT?



# HOW MANY WAYS..?

## Overview of Sustainable Responsible Investing (SRI) Strategies in Europe

**CAGR** = Compound Annual Growth Rate



# WHO IS DOING WHAT ACROSS EUROPE?

EUR millions

Countries	Exclusions (All)	Norms-based Screening	Best-in-Class	ESG Integration	Engagement and Voting	Sustainability Themed	Impact Investing
Austria	42,736	7,920	8,153	1,363	3,791	271	323
Belgium	253,946	50,426	17,542	90,384	45,645	275	340
Denmark	305,109	261,775	15	63,149	227,651	5,232	31,500
Finland	138,422	111,868	439	44,210	46,711	656	444
France	666,215	2,650,582	321,984	338,170	38,500	43,065	1,138
Germany	1,803,473	15,379	21,088	27,733	31,880	8,157	4,763
Italy	569,728	565,607	4,058	45,008	43,303	2,064	2,927
Netherlands	1,123,133	936,399	56,645	440,695	726,314	37,114	40,791
Poland	2,769	2,769	2,717	-	-	3,762	34
Spain	123,516	24,003	2,535	8,283	10,455	300	267
Sweden	714,638	378,189	10,967	358,520	444,719	2,315	1,421
Switzerland	2,536,014	75,051	38,866	92,876	77,345	21,017	9,818
UK	1,870,896	7,806	8,368	1,135,955	2,573,731	21,022	4,564
<b>Europe (13)</b>	<b>10,150,595</b>	<b>5,087,774</b>	<b>493,375</b>	<b>2,646,346</b>	<b>4,270,045</b>	<b>145,249</b>	<b>98,329</b>

## What about Ireland?

As part of IFS 2020 Sustainable & Green Finance strategy, Sustainable Nation Ireland has been tasked with raising awareness of the responsible investment agenda. Sustainable & Responsible Investment Forum (SIF) Ireland is the delivery platform.



# SRI APPROACHES

What is it?	Good for?	Less good for?
Exclusions	<ul style="list-style-type: none"> <li>✓ Transparent</li> <li>✓ Easy to implement</li> <li>✓ Protects reputational risk</li> <li>✓ Aligned with investor intent</li> <li>✓ Compatible with systematic investment</li> </ul>	<ul style="list-style-type: none"> <li>✗ Limits voting/company influence</li> <li>✗ Restricts investment universe</li> </ul>
Norms-based screening	<ul style="list-style-type: none"> <li>✓ Transparent</li> <li>✓ Protects reputational risk</li> <li>✓ Compatible with systematic investment</li> </ul>	<ul style="list-style-type: none"> <li>✗ Can limit voting/company influence</li> <li>✗ Restricts investment universe</li> </ul>
Best-in-class	<ul style="list-style-type: none"> <li>✓ Easy 'explainability'</li> <li>✓ Protects reputational risk</li> <li>✓ Performance-enhancing</li> <li>✓ Compatible with systematic investment</li> </ul>	<ul style="list-style-type: none"> <li>✗ Can limit voting/company influence</li> </ul>
ESG integration	<ul style="list-style-type: none"> <li>✓ Easy 'explainability'</li> <li>✓ Better decision making enhances performance</li> </ul>	<ul style="list-style-type: none"> <li>✗ Time-consuming/resource-heavy (let your asset manager take the strain)</li> <li>✗ Risk of 'naughty step' portfolio holdings</li> </ul>
Engagement & voting	<ul style="list-style-type: none"> <li>✓ Easy to explain</li> <li>✓ Communication/influence with companies</li> <li>✓ Better decision making enhances performance</li> </ul>	<ul style="list-style-type: none"> <li>✗ Time-consuming/resource-heavy</li> <li>✗ Risk of 'naughty step' portfolio holdings</li> </ul>
Sustainability-themed investing	<ul style="list-style-type: none"> <li>✓ Longer term investment horizon</li> <li>✓ Diversification beyond core investments</li> <li>✓ Understandable objectives</li> <li>✓ Can help 'balance' a 'dirtier' portfolio</li> </ul>	<ul style="list-style-type: none"> <li>✗ Non-core strategies</li> </ul>
Impact investing	<ul style="list-style-type: none"> <li>✓ Longer term investment horizon</li> <li>✓ Diversification beyond core investments</li> <li>✓ Understandable objectives</li> </ul>	<ul style="list-style-type: none"> <li>✗ Non-core strategies</li> <li>✗ Return may not align with investment needs</li> <li>✗ Quality of investment opportunities</li> </ul>

5

## HOW CAN WE DO IT?





# GETTING THERE

Common concerns on integration of ESG factors are:

- Practical 'how to do it'
- Data
- Understanding the risks & benefits



*"It isn't too complex really. A to B as fast as you can go and hope for the best. Close the eyes and pull like a dog."*

*Paul (or was it Gary?) O'Donovan, Aug 2016*

## Is it worth it? A Governance example

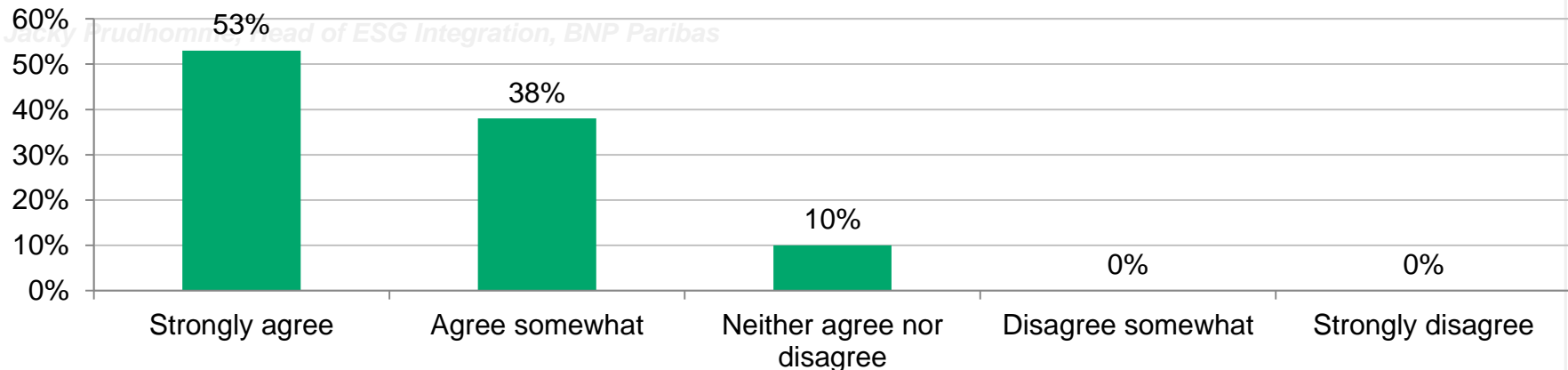
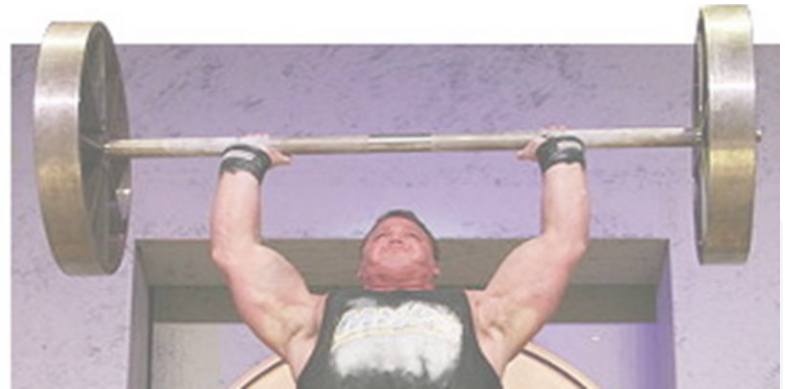
- A **V**ery **W**ell-known German car manufacturer, as an investment, looked attractive based on financial analyses
- It looked less attractive on Governance criteria
- Investors incorporating ESG criteria were better protected



# HEAVY LIFTING? WORTH IT?

We asked pension fund trustees

**“Should long-term sustainability and ESG factors be an active consideration for trustees regarding fiduciary duty?”**



Source: NAPF Engagement Survey, November 2014

**ESG is simply a tool for gathering more information.  
For making better informed decisions.**



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# PRACTICALLY. WHAT CAN YOU DO?

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**It depends on your size and your resources**

## Delegate

Some investors require their investment managers to incorporate ESG criteria. Or, as a 'proxy', insist that managers sign up to e.g. Stewardship Codes or the UN-backed PRI

## Outsource

Some outsource voting and engagement via external services or collectives

## In house

The largest investors can engage directly with their invested companies  
Demand reporting and transparency  
And vote directly too



# HOW CAN YOUR ASSET MANAGER HELP YOU?

## Education, understanding, risk management

- Share policy on ESG
- Explain how ESG is integrated in their investment approach
- And Corporate practice



## Other questions

- Is ESG research/analysis 'in-house' or outsourced?
- Does their approach demonstrate improved risk/return characteristics?
- How could they communicate with you - and report on - ESG
- How can they help you understand the risks in your portfolio?

Dialogue - discuss, question, challenge

# START BY DECIDING WHAT YOU WANT

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Responsible Investment Mission, Beliefs & Policy

Investment Strategy

Asset & Manager Engagement/Reporting

Monitoring and oversight

# The Religious Society of Friends (Quakers) Philadelphia

## Yearly meeting in 1758

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*So - what DID these people do that changed the landscape in investing?*

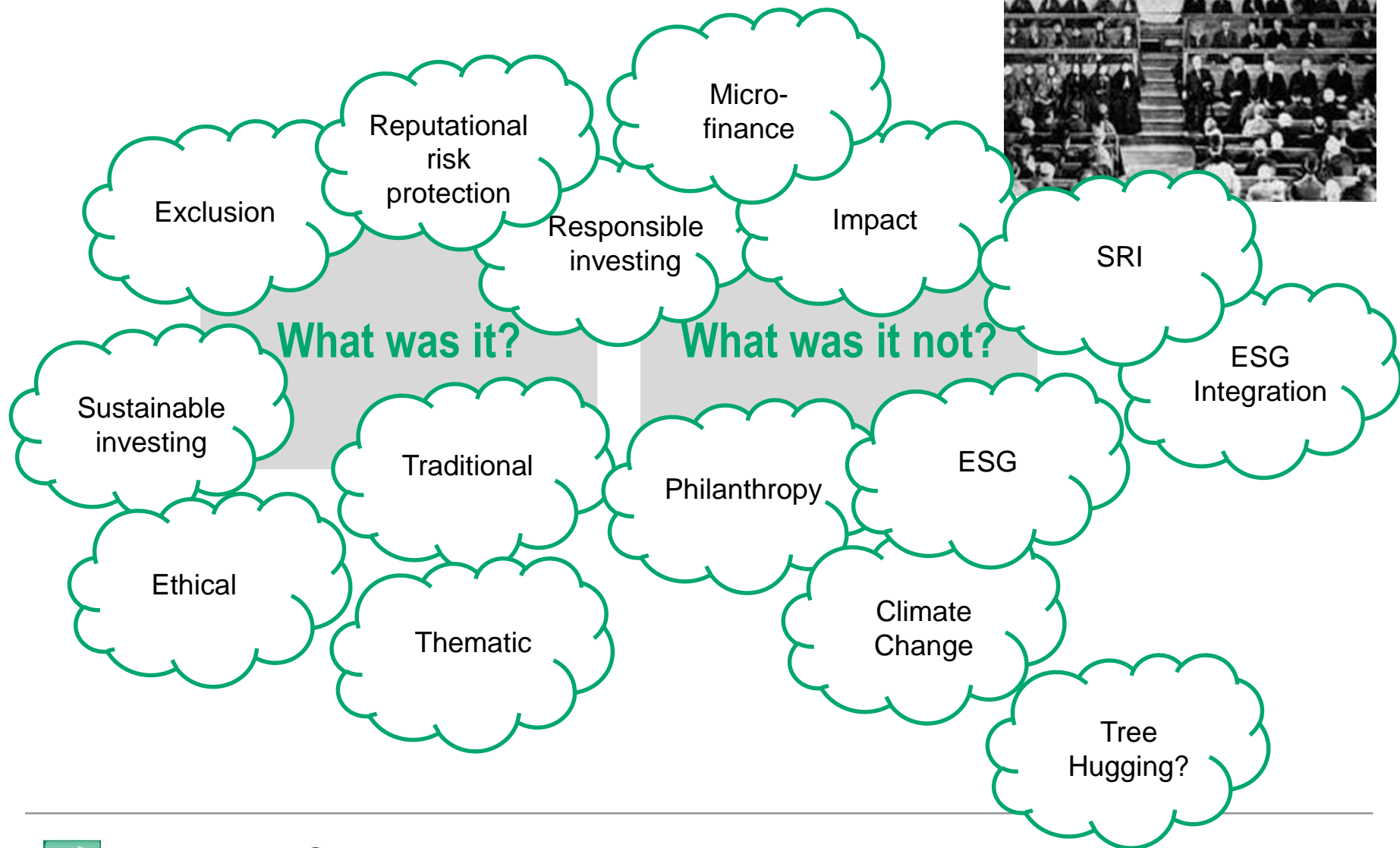


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13/09/2017 30

# AND WHAT WAS IT?



# SO, START BY DECIDING WHAT YOU WANT

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Responsible Investment Mission, Beliefs & Policy

Investment Strategy

Asset & Manager Engagement/Reporting

Monitoring and oversight



# WHAT NEXT – AND WHEN?

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To be made law by  
January 2019

Particular meeting agenda?

Tomorrow?



# THANK YOU – ANY QUESTIONS?

INVESTMENT ACADEMY

BNP PARIBAS ASSET MANAGEMENT

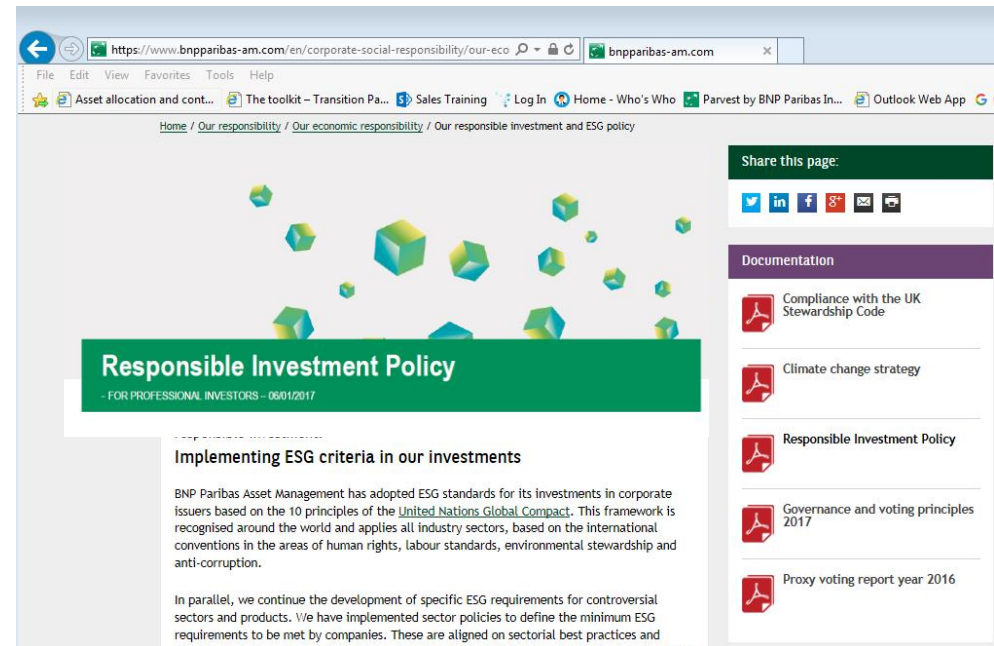


A GUIDE FOR INSTITUTIONAL INVESTORS



BNP PARIBAS

The bank  
for a changing  
world



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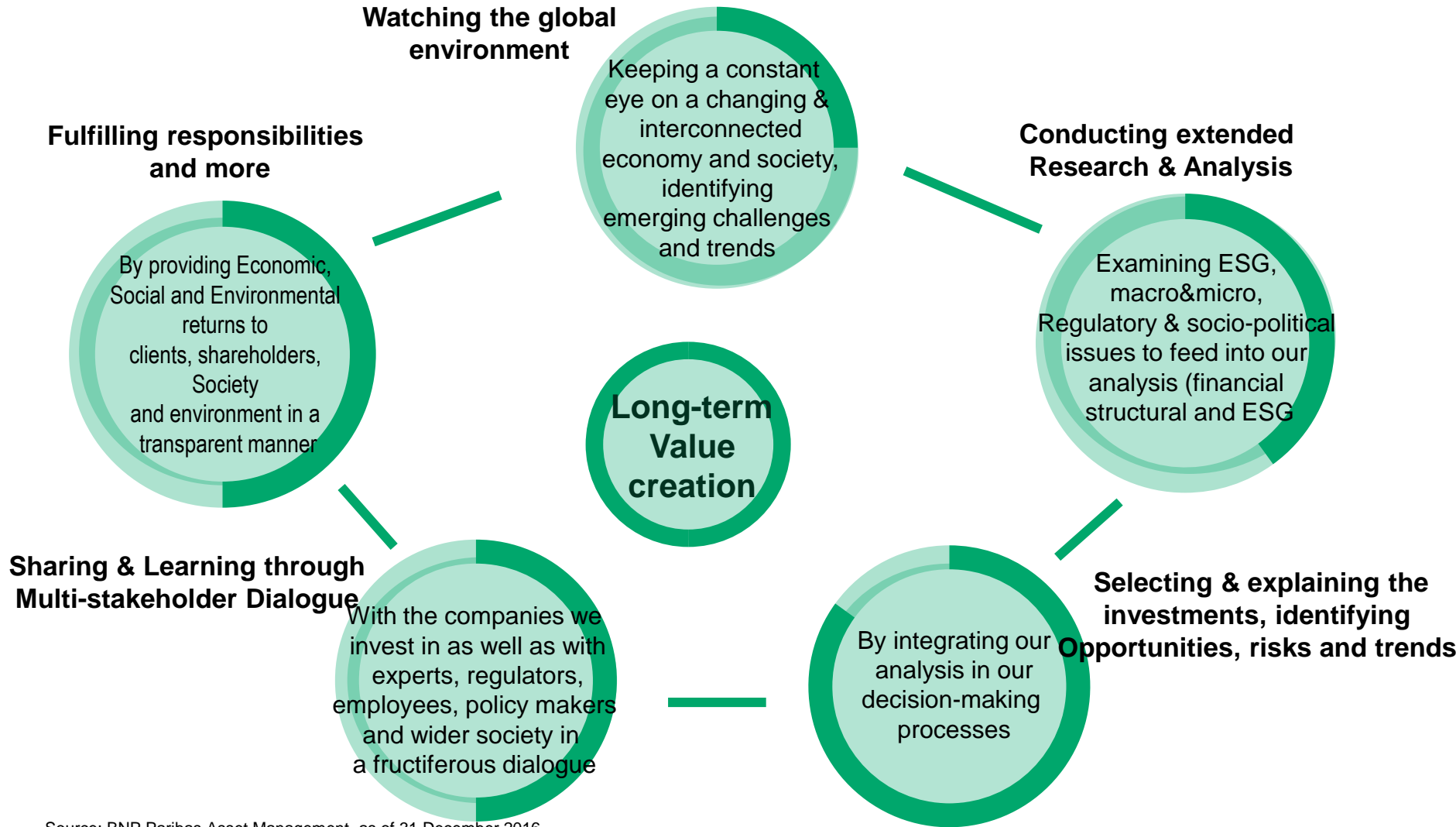
13/09/2017 34

# APPENDICES



# BLENDING APPROACH

## Integrating ESG into active management – an example



Source: BNP Paribas Asset Management, as of 31 December 2016



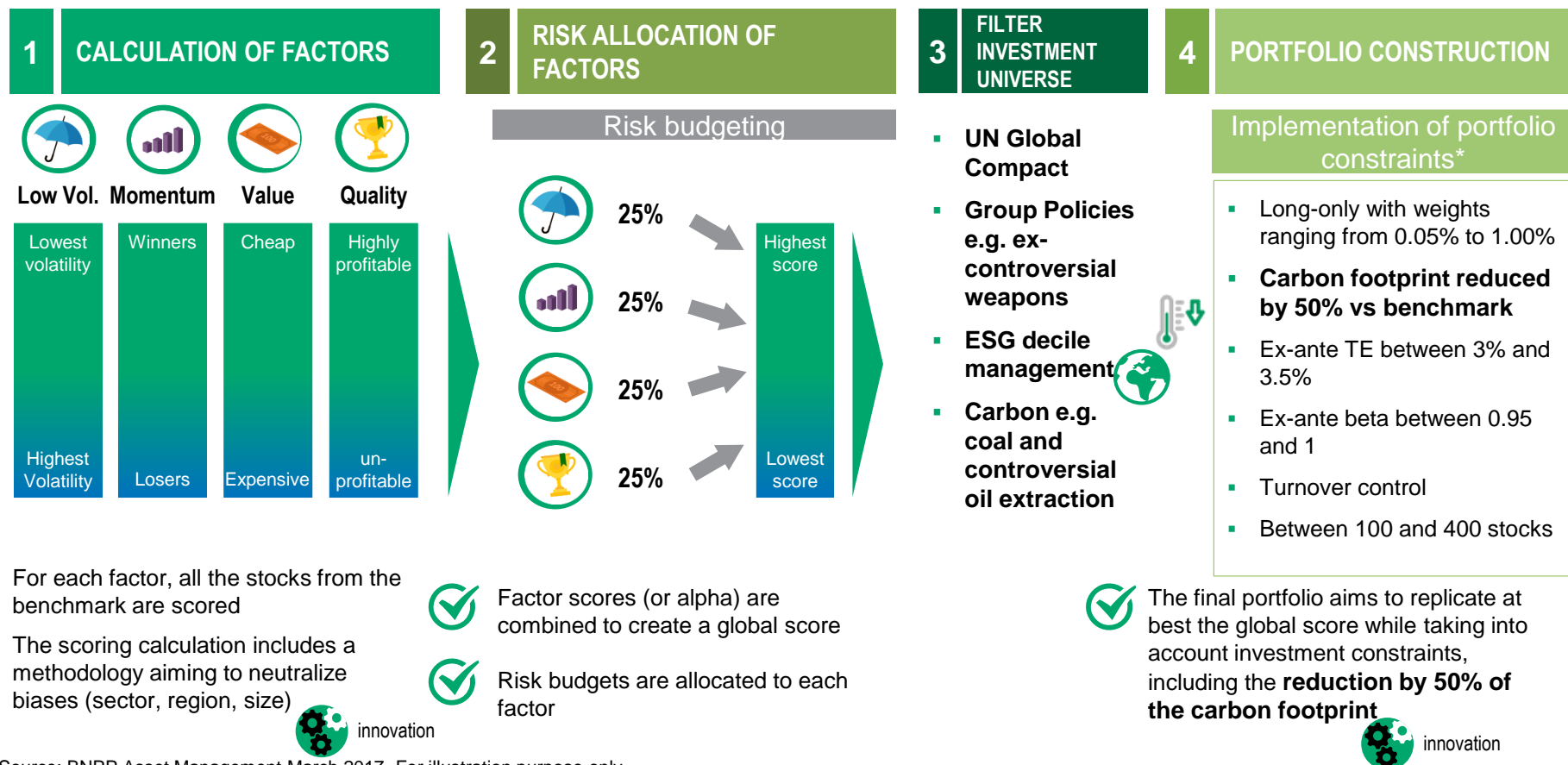
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# SYSTEMATIC GLOBAL EQUITY

## Integrating ESG into systematic management – an example

### Integrating exclusions, Best in Class, voting and engagement



Source: BNPP Asset Management March 2017. For illustration purpose only

\* These internal guidelines are mentioned for your information only and are subject to change. Prospectus and KIID guidelines are leading. Please read the Prospectus and KIID for latest information.

# EXAMPLES OF THEMATIC APPROACHES

## Examples of sustainably themed strategies



### Energy Efficiency

- Building Energy Efficiency
- Industrial Energy Efficiency
- Power Energy Efficiency
- LED Technology



### Renewable Energy

- Biofuels (2nd Generation)
- Geothermal Energy
- Hydropower
- Solar energy
- Wind energy



### Environmental Support Services

- Environmental Services, Auditing and Consulting
- Waste Management
- Recycling & Reuse



### Sustainable Agriculture

- Sustainable Agricultural Production
- Agricultural productivity



### Sustainable transport

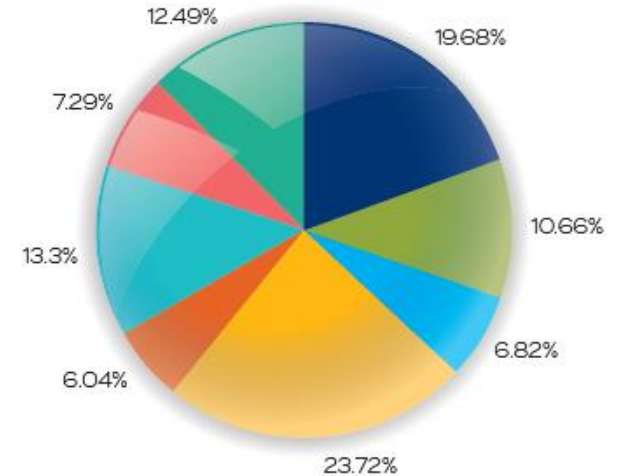
- Clean Transport
- Clean Transportation technologies



### Water

- Water infrastructure
- Water treatment
- Water-related technologies

## Sustainability themed investment



- Renewable energy
- Energy efficiency
- Sustainable transport
- Buildings sector
- Land use/Forestry/Agriculture
- Water management
- Waste management
- Other

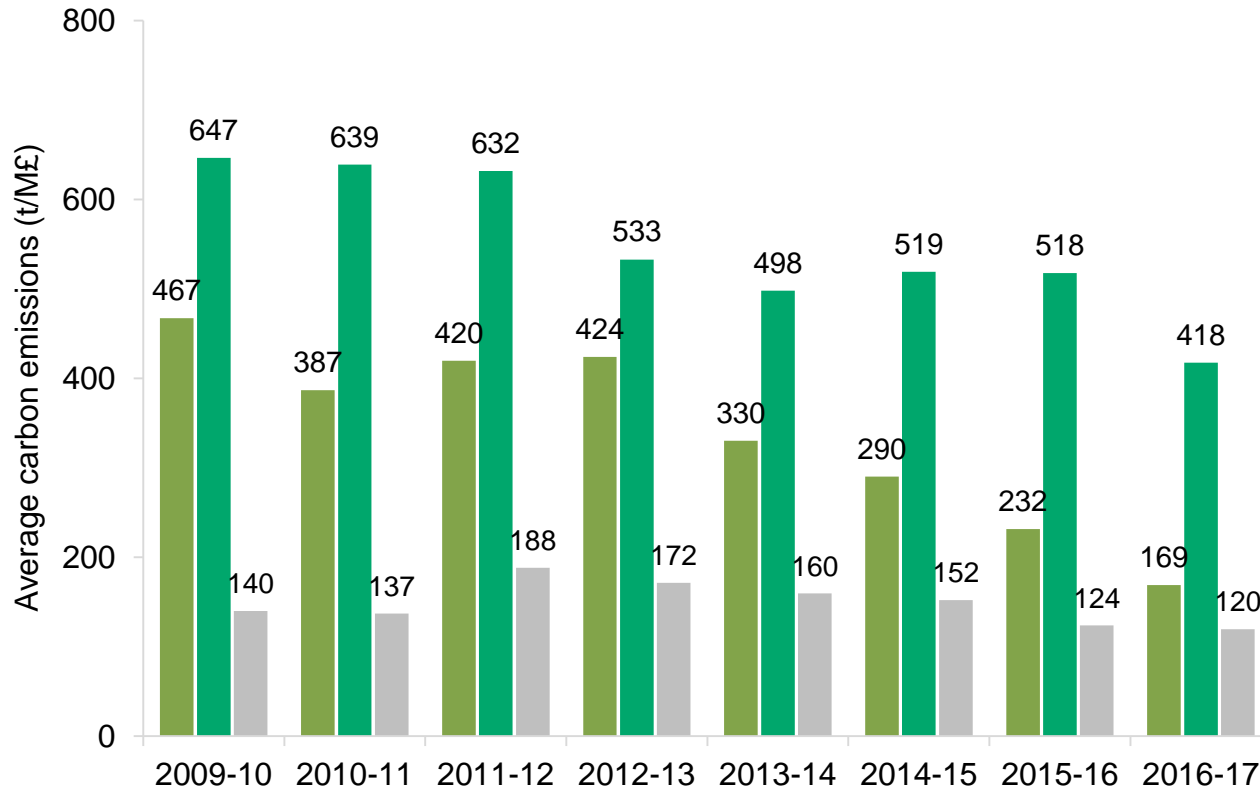
*Other includes: Multi-theme, Climate-related opportunities, Healthcare, Education, Safety, Well-being*



# CARBON FOOTPRINT AND INVESTMENT STYLES

## A Value example

### Historical carbon footprints



- MSCI World GBP (RI)
- VALUE STRATEGY (NO ESG AND CARBON MGMT)
- SEVE BNP PARIBAS AM

- Carbon reduction vs benchmark can be achieved – even in a value strategy
- Over time managed carbon and standard market cap index footprints may converge
- The integration of Carbon research can contribute positively e.g. 0.37% annually

Data from 31-Mar-2009 to 31-Mar-2017. Year on year figures ending March 31<sup>st</sup>.

Source: Internal BNP Paribas Asset Management, June 2017

SEVE = a sustainable value equity strategy

The MSCI World index is used as a comparative index for this strategy. The strategy does not aim to replicate either the composition or the performance of the comparative index as the strategy characteristics may deviate to varying degrees from those of the index.



# IMPORTANT INFORMATION

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All information referred to in the present document is available on [www.bnpparibas-am.com](http://www.bnpparibas-am.com)



# IMPORTANT INFORMATION

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Disclosing our activities in relation to Environmental, Social and Governance standards is an integral part of maintaining the kind of transparency we expect from the companies in which we invest.

Responsible Investment Policy. This policy, which covers our progressive integration of ESG standards into mainstream investments, is publicly disclosed on our website.

<https://www.bnpparibas-am.com/en/corporate-social-responsibility/our-economic-responsibility/our-responsible-investment-and-esg-policy>

Proxy Voting. Each year, we disclose our voting report publicly, including posting it on our website. This report provides an overview of our voting and engagement activities for the year under review, covering both quantitative and qualitative information.

<https://www.bnpparibas-am.com/en/corporate-social-responsibility/our-economic-responsibility/our-responsible-investment-and-esg-policy/>

PRI Transparency report. Every year we report our progress on ESG to the PRI. This report is publicly available.

<https://reporting.unpri.org/Download.aspx?id=8068DD9B-94B4-4C8F-81F5-B753B2BEC6D0>

Report on our engagement activity. Since 2012, we have produced an annual CSR report, available on our website, which provides details our main engagement initiatives and actions on environment, social and governance issues.

<https://www.bnpparibas-am.com/en/corporate-social-responsibility/>

French law on Ecological Transition for Green Growth. Since the start of 2017, French asset management companies must comply with Article 173 of the French law on Ecological Transition for Green Growth. This requires them to report on their consideration of ESG risks and climate change risks; their contribution to ecological transition; the way they vote at Annual General Meetings and the way they engage with companies. This report is then added to the funds' annual report. BNPP AM's first report was released in April 2017 and is publicly available on our French website.

<https://www.bnpparibas-am.com/fr/responsabilite-sociale-et-environnementale/notre-responsabilite-economique/notre-politique-dinvestissement-responsable-et-esg/>

<https://docfinder.is.bnpparibas-ip.com/api/files/1c2e9aa1-cfa0-4b6b-afb8-1de680aad1a1/1024>



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