SPOTT

January 2021
Case study #2

Sustainable finance and tropical forestry

Scoring companies on ESG criteria

BNP Paribas Asset Management

BNP Paribas Asset Management is the asset management arm of BNP Paribas, one of the world's foremost financial institutions, and offers solutions to individual savers, companies, and institutional investors. It has four investment divisions: Equities, Fixed Income, Private Debt & Real Assets, and Multi-Asset, Quantitative and Solutions (MAQS). BNP Paribas Asset Management has EUR 598 billion of assets under management and advisory as of 30 September 2020, with 500 investment professionals and almost 500 client servicing specialists, serving individual, corporate and institutional clients in 71 countries.

ESG integration as part of a wider Global Sustainability Strategy

Environmental, Social and Governance issues may impact the value and reputation of entities in which BNP Paribas Asset Management invests. Incorporating ESG standards into investment criteria in accordance with our fiduciary duty is a way to help clients achieve their investment objectives and protect their interests.

In March 2019, BNP Paribas Asset Management launched a Global Sustainability Strategy committing to adopt a sustainable investment approach in its full range of investment strategies.

This strategy integrates the key elements of sustainable investment:

- comprehensive research and integration of environmental, social and governance (ESG) factors;
- investor stewardship (including individual and collective engagement activities);
- responsible business conduct and product-based exclusions;
- and a focus on three thematic areas to promote a sustainable future.

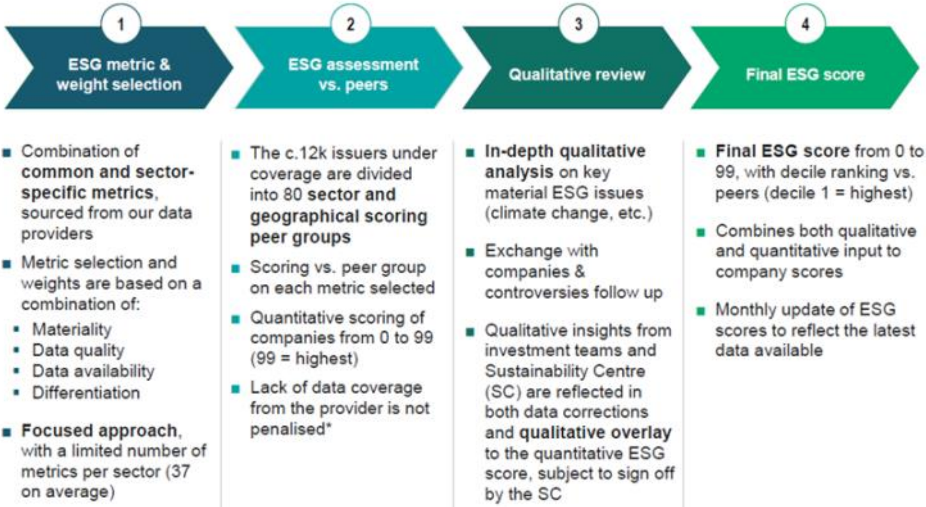
The aim of these approaches is to strengthen the way BNP Paribas Asset Management invests, generates investment ideas, constructs optimal portfolios, controls for risk and exerts influence with companies and markets.

For more information, please refer to BNP Paribas Asset Management's Global Sustainability Strategy, referenced in the "Further Reading" section of this case study.

Approach to ESG data integration

BNP Paribas Asset Management conducts its own independent research, based on various sources and not limited to mainstream and commercial ESG data suppliers – this means reviewing media and NGO reports and industry specific datasets.

This approach is completed by regular, direct contact with issuers where possible.



Timber and pulp sector specific approach

BNP Paribas Asset Management includes Wood pulp production among the activities it considers 'sensitive' and forestry-related operations therefore receive particular attention.

While BNP Paribas Asset Management's global framework aligns with the United Nations Global Compact & OECD MNEs Guidelines, its Wood pulp sectoral policy also seeks to mitigate exposure to negative impacts which are specific to forestry management and wood pulp production.

The'E' lens isn't enough

The timber and pulp sector presents concerns related to operational context and supply chain issues:

- The operation of heavy machinery and intensive transformation processes make for an accident-prone industry
- New development projects are mainly in emerging countries where regulatory frameworks are weaker, posing a higher risk of human rights violations
- The sector is under strict scrutiny for its wood supply (concerns around chain of custody, legality of harvest)

To minimise risks associated with potential financial penalties, cashflow issues, operational risks, or reputational damage, it is crucial for companies to have a strong commitment to ethical practices as well as robust policy implementation.

The policy sets out criteria which investments in the sector are subject to, and highlights five main sustainability issues:

- 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's 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, energy consumption and waste management)

Using disclosed information: research findings and their applications

The table and text below summarise some of the output of the qualitative assessment carried out by an ESG analyst, focussing on a company's water management efforts on seven criteria:

		Company A
Water	Targets and initiatives	Positive
	Risk management (scarcity, floods, supplier engagement)	Positive
	Transparency (origin, use, discharge)	Positive
	Water withdrawals performance	Neutral
	Water quality (BOD, COD, TSS, N, P) performance	Positive
	Business opportunities that save water	Neutral
	Access to WASH / Local Community Engagement / SDG 6.	Positive
	Bonus/Malus WATER 2017	20%
Controversy	**Bonus/Malus Controversy 2017**	0%
BONUS/MALUS 2017		**20%**

Fig. 1: Sample company scoring from a BNP Paribas Asset Management case study.

"[Company A]'s dedication to water management and disclosure is outstanding. The company has set three ambitious water targets for 2030 vs 2008 baseline at group level for pulp and paper production (...) Its water quality monitoring systems are strong and the company requires to have both a mechanical and a biological effluent treatment at all its sites. (...) Also, it is working with local authorities to assess its local impact on watersheds (...) In terms of risk management, the company states it operates at 100% in water abundant location (it discloses publicly the localization of its production sites against the Water Stress Index maps, which is clearly best practice). (...) it is the only company assessed which has disclosed a water sensitivity analysis (...)"

Fig. 2: Sample analyst comment from a BNP Paribas Asset Management case study.

For the full case study, see more at: https://naturalcapitalcoalition.org/finance-sector-supplement-to-the-natural-capital-protocol-case-study-for-bnp-paribas-asset-management/

Next steps: How ESG scores impact investment decisions

BNP Paribas Asset Management ESG scores (absolute ESG score) and deciles (relative ESG ranking, sector neutral) are disseminated to all portfolio managers and applied in the following ways:

For SRI best-in-class funds, portfolio managers cannot invest in the bottom three ESG deciles.

For non-SRI funds, portfolio managers follow an 'ESG integration' approach, where ESG analysis is integrated in various stages of the investment process, with the target for all funds to have more favourable ESG characteristics (e.g., a higher ESG score and lower carbon footprint) than their reference benchmark. Furthermore, investment in weakly-rated companies requires investment teams to carry out an additional qualitative analysis integrating ESG factors. BNP Paribas Asset Management's approach also places a great emphasis on stewardship, using the ESG assessment to actively engage with portfolio companies to promote enhanced sustainability practices.

Further reading

- BNP Paribas Asset Management's Global Sustainability Strategy:
  https://docfinder.bnpparibas-am.com/api/files/2818EAAE-D3CF-4482-A3BA-A2EA898AFD0D
- BNP Paribas Asset Management's Sustainability Report 2019:
  https://fr.zone-secure.net/20591/1214204/#page=1
- BNP Paribas's Wood Pulp Policy:
  https://group.bnpparibas/uploads/file/csr_sector_policy_wood_pulp.pdf
- BNP Paribas Asset Management's ESG Scoring Framework:
  https://www.bnpparibas-am.com/en/esg-scoring-framework/

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Developed by ZSL (Zoological Society of London), SPOTT is a free, online platform supporting sustainable commodity production and trade. By tracking transparency, SPOTT incentivises the implementation of corporate best practice. SPOTT assesses commodity producers, processors and traders on their public disclosure regarding their organisation, policies and practices related to environmental, social and governance (ESG) issues. Investors, buyers and other key influencers can use SPOTT assessments to inform stakeholder engagement, manage ESG risk, and increase transparency across multiple industries.

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