

# Responsible Investing

## AXA IM ESG Standards Policy



**As stewards of our clients' assets, our primary goal is to help them preserve and grow their wealth. An important part of achieving this is by investing responsibly. We believe that responsible investment (RI) can not only deliver sustainable, long-term value for clients but that it can also make a positive impact on society.**

As a responsible investor, at AXA Investment Managers ("AXA IM") we want to manage ESG risks and opportunities when investing on behalf of our clients. We have identified certain sectors, products and services, in which we will not invest in, above a certain threshold due to ESG-related risk factors. These standards reflect our convictions as a responsible investor and apply to our Responsible Investment open ended funds<sup>1</sup>, and are available to institutional clients on an opt-in basis. They complement the Responsible Investment sectorial policies which are applied across AXA IM (incl. climate risks policy, controversial weapons policy, palm oil policy etc.), and are one dimension of our ESG integration approach<sup>2</sup>.

AXA IM's ESG standards help us to manage ESG and sustainability tail-risks. They focus on material issues such as health and social capital, while also considering severe controversies as well as low ESG quality. As described below, as a result of these ESG standards, we exclude the Tobacco sector, White Phosphorus weapons producers and companies in violation of the United Nations Global Compact. We also aim to minimize our exposure to ESG Low Quality issuers.

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<sup>1</sup> These include ESG integrated, Sustainable and Impact investing funds. Details on our RI categories is available on AXA IM website.

<sup>2</sup> Detail of AXA IM ESG integration approach, and RI sectorial policies is available in our RI policy, and on AXA IM website.

- **Tobacco**

The negative impact of tobacco is well documented and as a result many investors are divesting from the sector. The World Health Organisation (WHO) Framework Convention on Tobacco Control - the first international treaty negotiated by the group - went live in 2005 and today has 181 Parties accounting for more than 90% of the world's population. The aim of the initiative was to take on and tackle issues such as trade liberalisation, direct foreign investment, tobacco advertising, sponsorship and illicit trade in tobacco products. WHO observed that the industry is in conflict with United Nations' principles due to the fact that it uses child labor to produce tobacco. In 2018, the head of the secretariat of the World Health Organization's Framework Convention on Tobacco Control, referring to International Labor Organization estimates, stated that about 1.3 million children a year were working in tobacco fields in 2011. The numbers are rising with a shift in tobacco growing from some of the better-off countries to some of the poorer. It declined between 2000 and 2013 in Turkey, Brazil and the United States, but increased in others, such as Argentina, India and Zimbabwe <sup>3</sup>.

The organization calls the tobacco epidemic "one of the biggest public health threats the world has ever faced", as it kills more than 7m people every year, and circa 10% of these deaths are the result of passive smoking. Given the ongoing and indeed growing pressure the industry faces, we believe that ultimately the regulatory and profitability risks regarding tobacco companies remain under-represented.

- **White phosphorus weapons producers**

White phosphorus, derived from the chemical element phosphorus, can be used as munition in incendiary weapons. Such munitions can burn in the open air for a prolonged period and when used in populated areas, cause horrific injuries, burning deep into the muscle and bone.

White phosphorus weapons are covered by Protocol III of the Convention on Certain Conventional Weapons (CCW)<sup>4</sup> when the "weapons [are] primarily designed to set fire to objects or to cause burn injury to persons. It is prohibited in all circumstances to make the civilian population as such, individual civilians or civilian objects the object of attack by incendiary weapons".

However, white phosphorus can also be used in other weapon devices, such as illuminants, tracers, smoke or signalling systems, all of which are notably not covered by Protocol III, where it is considered that such munitions "which may have incidental incendiary effects" are excluded from incendiary weapons. Recently these types of weapons have been used more frequently in populated areas e.g. Syria and Yemen.

- **United Nations Global Compact ("UNGC") violations**

We believe that the companies we invest in should be consistent with the standards of the UNGC principles, and that a significant violation of these by an investee company is prejudicial and should be addressed. We actively screen for the most severe controversy stocks, which we believe present a risk to future operations, due to poor business practices.

- **Low ESG quality**

To manage ESG risks, and promote best practices, we actively screen companies with a poor ESG performance, using a "Comply or Explain" approach<sup>5</sup>. We have developed our own Corporate ESG scoring methodology<sup>6</sup>, to evaluate the ESG performance of companies worldwide, and aim to minimize our exposure to companies with an ESG Score below 2 (on a scale of 0 to 10) in our Responsible Investment open funds.

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<sup>3</sup> The Guardian June 25, 2018

<sup>4</sup> It entered into force on 2 December 1983

<sup>5</sup> The ESG score might not fully reflect the ESG situation of an issuer at a point in time and that is why a "Comply or Explain" approach is in place - relying on a qualitative analysis by our portfolio managers, supported by ESG analysts, which is overseen by a dedicated governance body, the ESG Monitoring and Engagement committee.

<sup>6</sup> For more details on AXA IM Proprietary Scoring Methodology for Corporates, please refer to <https://www.axa-im.com/responsible-investing/framework-and-scoring-methodology#scoring>

## Excluded Companies

Sector / Area	Exclusion criteria	Approach	Source
Tobacco	- Companies involved in the production of tobacco (revenue generated by production of tobacco >0%)	Affiliates of excluded companies may also be excluded in particular if they act as securities issuance entity for or act in a similar sector as the related excluded company.	We rely on external providers to prepare an initial list of issuers in scope.
White Phosphorus Weapons Producers	- Companies involved in the development, production, maintenance or sale of white phosphorus weapons	The exclusion lists are updated at least on a yearly basis unless a specific event requires an intermediate revision <sup>7</sup> .	The lists are then reviewed qualitatively and discussed within our RI governance committees on a regular basis, at least annually.
UNGC violations-	Companies exposed to severe controversies, highlighting material breaches of the UNGC.	Portfolio managers are authorised to keep or invest in lower ESG scored issuers positions provided that qualitative analysis is undertaken to ensure that no severe risks are identified <sup>8</sup> .	A temporary engagement approach can be chosen for certain issuers, instead of an exclusion approach <sup>9</sup> .
Low ESG Quality-	Companies with a low ESG score (<2, scores between 0 and 10), using AXA IM Corporate ESG scoring methodology		

Sources: Sustainalytics, ISS Ethix, MSCI, Vigeo.

## Scope

### Instruments

Our ESG Standards Policy covers all financial instruments issued by the excluded companies, or those which are offering exposure, to excluded companies.

### Portfolios

The ESG Standards Policy applies in principle to all Responsible Investment open funds under AXA IM's management<sup>10,11</sup>. The policy also applies to dedicated funds and third-party mandates, when the client has formally opted-in.

The policy does not apply to non Responsible Investment open ended funds. It does not apply to dedicated funds, unless the client opted-in.

<sup>7</sup> Examples given: major newsflow. The list is not systematically updated following corporate actions.

<sup>8</sup> A specific approach is in place for quantitative investment strategies, detail available on demand.

<sup>9</sup> Progress of Engagement activities is monitored by the same RI governance committee.

<sup>10</sup> Open funds in scope reference "AXA IM ESG standards" in their prospectus and / or are part of our Sustainable and Impact investing fund ranges. Detail of the RI categories of each fund is available on demand. Extra considerations are made for funds where the ESG standard conflicts significantly with the investment objectives. Those funds may not apply the ESG standards.

<sup>11</sup> In the case of fund of funds applying the ESG Standards, at least 90% of underlying funds apply the standards.

## Implementation

These ESG standards are implemented on a best-effort basis, taking into account local regulation and both a client's as well as fund's best interest, with a transition period following their initial implementation for the funds / mandates in scope, and following periodic revisions of the exclusion-lists. If the application of this standard dictates divestments, portfolio managers shall disinvest at their discretion within this transition period taking into account the portfolio impacts based on market conditions, liquidity and portfolio construction constraints. In practice some targeted instruments could remain in the funds or mandates for a period if deemed in the best interest of their clients; however, those holdings cannot be increased.

The exclusion-lists are prepared using information from external data providers, and although a qualitative review is performed, AXA IM is therefore not responsible for the accuracy of this data.