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Euro Buy and Maintain Sustainable Credit

Investing in companies transitioning to a low carbon economy

- 36% lower carbon emissions compared to the investment grade credit index
- Strong focus on climate leaders
- Capture market beta while seeking higher long term performance thanks to low carbon investments

Fixed Income Investment Solutions team

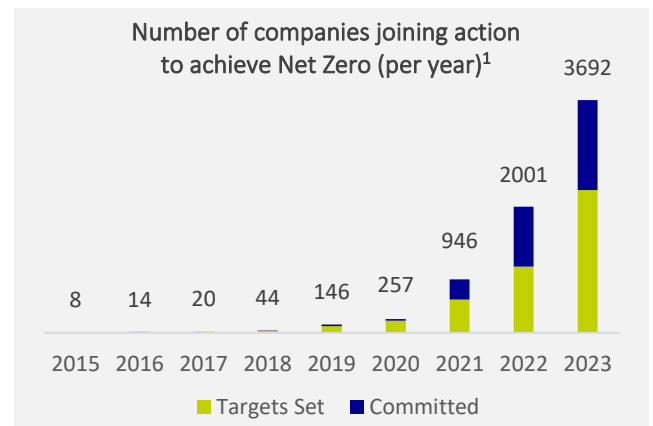
What's happening?

Net Zero: where do we stand?

It is that time of the year to do the math and monitor the progress reached so far.





Looking at the race towards a Net Zero economy, we can see that the momentum continues to be impressive with almost twice more companies taking action looking at SBTi numbers at the end of 2023, now standing over 7200 companies. The dynamic is well supported by global events and forthcoming regulations to stimulate everyone to contribute, COP28 being the greatest exemple in 2023 again. Source: SBTi as of January 2024.

¹Evolution of the number of new companies that have set emissions reduction targets, or at least committed to, through SBTi, per year.



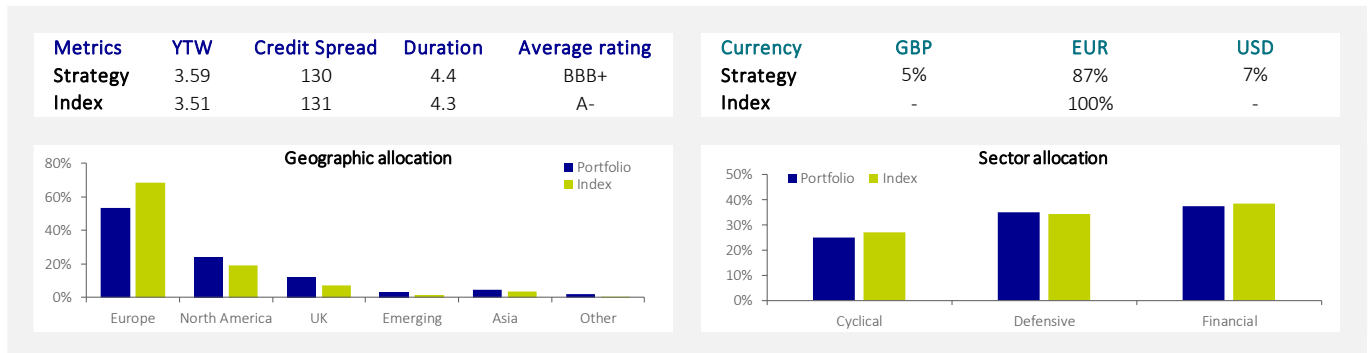
Positioning and performance

Main Climate KPIs

 Green bonds*	Strategy 30%	Index 9%	 SBTi coverage	Strategy 54%	Index 56%
 Carbon Intensity	Strategy 77	Index 105	 Brown share	Strategy 8%	Index 8%

Source: AXA IM, ICE BofAML, Trucost, MSCI Carbon Delta, Bloomberg as of 29 December 2023. *Please note that the strategy does not have any Green Bonds allocation objective or constraints. SBTi coverage: companies having set emissions reduction targets, or at least committed to, through SBTi. Carbon intensity (Scope 1 and 2) expressed in tonnes of carbon emissions per € million invested. Brown share: measure exposure to fossil fuels in % of revenues. Index is the ICE BofAML Euro Corporate (ER00).

Euro Buy and Maintain Sustainable Credit strategy characteristics



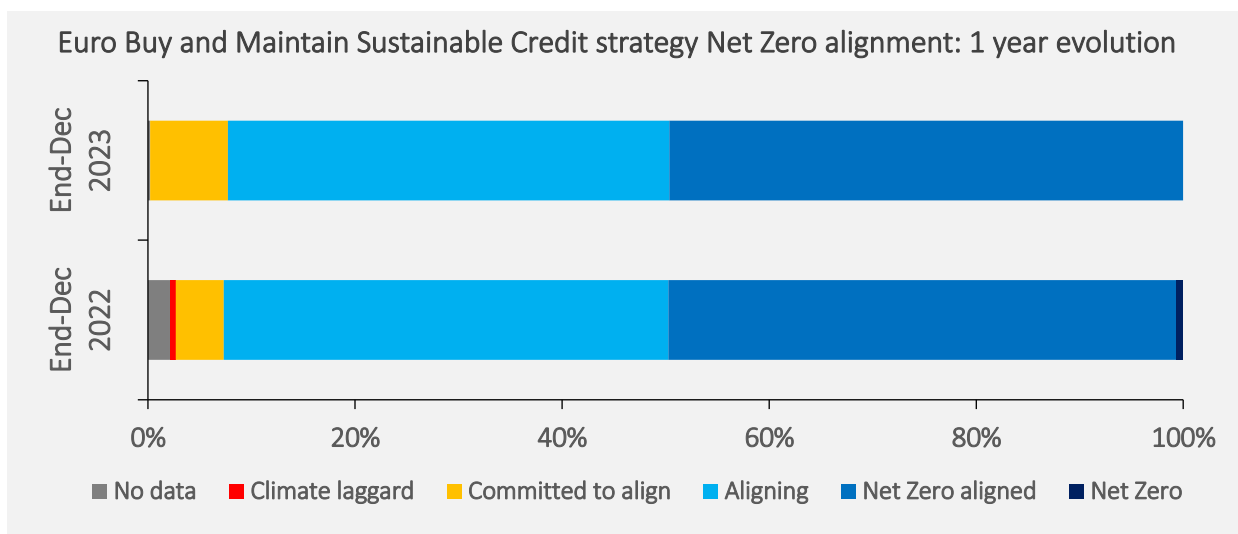
Source: AXA IM as of 29 December 2023

Euro Buy and Maintain strategy Net Zero alignment: AXA IM climate colour methodology

Our framework for climate risk analysis at issuer level takes into account internal and external information from different providers (SBTi, TPI, CDP, S&P Trucost, MSCI, business reports...). Each company is assigned a "climate colour", ranging from Dark Blue (companies already aligned with the emissions level of their sector compatible with a Net Zero global economy, based on levels produced by the International Energy Agency) to Red ("climate laggards", for companies that have not demonstrated any effort to transition to a low carbon economy). We use a decision tree that offers a reading grid of these "climate colours" and allows our fundamental credit analysts to qualify the advances of each sector's companies. This assessment is systematic in the analysis process with a regular update.



Through 2023, our goal has been to continue improving our environmental strategy, in line with the carbon transition towards a Net Zero economy. In practice, we have sold remaining exposure to companies identified as climate laggards ('red' issuers) and focused our new investments on companies having at least credible targets for carbon reduction. Our exposure to 'orange' issuers (Committed to align) is mostly through Green and Sustainability Bonds (representing 74% of our allocation to 'orange' names). We also focus our engagement activities with those issuers, as our philosophy is to invest in the transition to a net zero economy and engage with high emitters, rather than blindly avoid all issuers or industries with high current carbon emissions.



Source: AXA IM as of 29 December 2023

Outlook

The risk of higher rates has diminished. We expect a rate cutting cycle to begin by mid-2024, long-term yields should ease further allowing capital gains across the yield curve and these will be more meaningful in longer duration credits. As such, longer duration credit looks attractive as we enter 2024. The resiliency of global growth and the strength of corporate balance sheets meant credit returns have been very strong last year. Spreads are lower than they were at the start of the year, providing that positive price return relative to government bonds. As the year ended, credit markets remained very resilient with spreads generally in the middle of their long-term ranges. Markets are not pricing in much in terms of credit distress. Fitch, the rating agency, is forecasting a rise in defaults in the high yield market to above 5% in the US high yield market. The argument is that as nominal GDP growth, highly leveraged businesses will see free cash-flow erode and earnings growth slow. Those that need to refinance will see a general deterioration in credit metrics. A cautious approach would be to focus on better quality in both the investment grade and high yield markets and, as always, to have confidence in credit selection and sector allocation. However, a diversified credit exposure should be the core of a balanced portfolio for the coming year.

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