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 and ESG integrated open ended funds[1], 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. controversial weapons, palm oil, etc.), and are one dimension of our ESG integration approach[2].

AXA IM's ESG standards help us to manage ESG tail-risks. They focus on material issues such as climate change, health and social capital, while also taking into account severe controversies as well as low ESG quality. As a result of these standards, we exclude the following sectors and areas within our RI and ESG integrated funds:

- ### Climate risks

Limiting global warming to +2°C increase over the historical average has become a key goal for global policy makers. The Intergovernmental Panel on Climate Change (IPCC), has warned that breaching this threshold would pose significant risks to society. However staying below this limit requires a significant reduction of greenhouse gas emissions worldwide, and therefore, fossil fuel dependence.

[1] Unless otherwise specified in the relevant RI policy

[2] Detail of AXA IM ESG integration approach, and RI sectorial policies is available in our RI policy, and on AXA IM website.

Coal, for example, is a widely used low-cost energy source but it is also the most carbon-intensive and generates a high level of polluting emissions. As a result, and bearing in mind that political and economic realities can vary from one country to another, the development of coal energy generating capacities need to be constrained if we want to keep the world below the +2°C increase in temperatures.

In addition tar sand is a non-renewable energy source which also has a significant impact on the environment and on peoples' health, as it is one of the most intensive sources of greenhouse gases, emitting three times more than conventional oil. Tar sands extraction is also a big threat to biodiversity, as leads to the destruction of forests and peatlands.

Due to the use of solvents during the extraction process, it is also responsible for air pollution, emitting particles and methane. The destruction of biodiversity and the pollution emitted during the extraction process have a direct social and health impact on local communities and oil sands workers. AXA IM believes that the development of this energy is not consistent with good management of the fight against global warming. While these activities still represent short-term financial prospects, we believe that in the long term, the political commitments to fight climate change, as well as cost arbitrages, will continue to put coal and oil sand activities under pressure globally.

- **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 labour to produce tobacco. 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 in regards to tobacco companies, remain under-represented.

- **Defense: White phosphorus weapons**

White phosphorus, derived from the chemical element phosphorus, can be used as munitions 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) 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".

But white Phosphorus can also be used in other devices, such as illuminants, tracers, smoke or signaling 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.

- **UNGC principles**

We believe that the companies we invest in should be consistent with the standards of the United Nations Global Compact (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. We actively screen for the most severe controversy stocks, which we believe present a risk to future operations, due to poor business practices. We base our analysis on the 'Severe' controversies list regularly updated by the data provider. In addition we also consider other stocks which may have been flagged by our Responsible or investment teams for targeted review. Those issuers are reviewed by our internal ESG Monitoring and Engagement committee, and, unless there is compelling view that their controversial issues are being or will be addressed in the near future, and/or unless the company is currently a target of our overall corporate engagement initiatives, the companies are removed from portfolios.

- **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. We have developed our own scoring methodology, to evaluate the ESG performance of companies worldwide, and do not finance companies with an ESG score below two (on a scale of 10) in our RI and ESG integrated funds. 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 - here we rely 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 commitee.

Excluded Companies

Sector / Area	Exclusion criteria	Approach	Source
Climate risks	- Companies that derives 30% or more of their revenue from thermal coal - Mining companies that extract more than 20m tonnes of coal per year - Power generation companies that have 30% or more of electricity generation capacities powered by coal - Power generation companies that plan to expand coal power generation capacity by more than 3000 MW by 2020 - Mining companies that derive 20% or more of their revenue from tar sands extraction - Pipelines companies that derive 20% or more of their revenue from tar sands transportation.	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. The exclusion lists are updated at least on a yearly basis unless a specific event requires an intermediate revision.	We rely on external providers to prepare an initial list of issuers in scope. The lists are then reviewed qualitatively and discussed within our RI governance committees on a regular basis.
Tobacco	- Companies involved in the production of tobacco (revenue generated by production of tobacco >0%)		
Defense	- Companies involved in the development, production, maintenance or sale of white phosphorus weapons		
UNGC breach	- Companies exposed to severe controversies, highlighting material breaches of the UNGC.		
Low ESG Quality	- Companies with a low ESG score (<2, scores between 0 and 10).	Portfolio managers are authorised to keep some of the lower ESG scored issuers positions provided that a qualitative analysis was performed to ensure there is no severe ESG risk. This is overseen by a dedicated governance.	AXA IM ESG scoring methodology

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 ESG integrated and RI open funds under AXA IM's management[3]. 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 ESG integrated / RI open ended funds, nor to funds-of-funds which are not under the management of AXA IM, or to Index funds. It does not apply to dedicated funds, if the client did not opt-in.

This policy applies to funds which are part of the AXA World Fund, UK Funds and French fund ranges and referenced in AXA IM generic transparency code, as well as to dedicated funds .

Implementation

These ESG standards are implemented on a best-effort basis, taking into account both a client's as well as fund's best interest, with a transition period of three months 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 within this transition period taking into account the portfolio impacts based on market conditions, liquidity and portfolio construction constraints. 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.

[3] *ESG integrated open funds in scope are the ones listed in AXA IM ESG integration Generic Transparency code, available on our website. RI funds in scope are open funds which are part of our Listed / Alternative Impact fund ranges, as well as Label ISR and Label TEEC funds.*