

# 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 ESG and Responsible Investment open ended funds<sup>1</sup>. They are also 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, ecosystem protection and deforestation 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, and mitigate the negative impacts our investments might have on sustainability factors. They focus on material issues such as certain aspects affecting health, human rights and social capital, while also considering severe controversies as well as low ESG quality.

As described in more detail below the ESG standards exclude the Tobacco sector, White Phosphorus weapons producers and companies in violation of international norms and standards such as the United Nations Global Compact Principles or the OECD guidelines for Multinational Enterprises, as well as companies which are involved in severe ESG-related incidents. 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 open-ended funds. Those open-ended funds are categorised as products which promote ESG characteristics (“Article 8”) or which have sustainable investment as their objective (“Article 9”) according to the Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (“SFDR”). Detail 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.

Finally, we also refrain from investing in instruments issued by countries where specific categories of serious violations of Human Rights are observed which are described in more details below.

- **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 182 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 8m people every year, and circa 10% of these deaths are the result of passive smoking (WHO, 2020). 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 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.

- **Violations of International norms and standards**

We avoid investing in companies which cause, contribute or are linked to violations of international norms and standards in a material manner, focusing in particular on UN's Global Compact Principles, International Labor Organization's (ILO) Conventions, OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights (UNGPs). Those standards notably focus on Human Rights, Society, Labor and Environment. We believe this helps us to avoid reputational damage and to proactively manage related financial risks.

- **Severe controversies**

We avoid investing in companies involved in incidents and events that pose a severe business or reputation risk to a company due to the impact on stakeholders or the environment.

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

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

- **Low ESG quality**

To manage ESG risks, and promote best practices, we avoid investing in companies with a poor ESG performance. We have developed our own Corporate ESG scoring methodology<sup>5</sup>, to evaluate the ESG performance of companies worldwide, and aim to limit exposure to companies with an ESG Score below 2 (on a scale of 0 to 10) in our Responsible Investment open funds. A “Comply or Explain” approach is in place for this rule, with an oversight from the ESG Monitoring & Engagement committee.

- **Countries with severe human rights violations<sup>6</sup>**

We avoid investing in debt instruments issued by countries where the worst forms of human right violations are observed. While we do consider democracy as the best regime to preserve human rights, our intention is not to make a value judgement on the different type of regimes. Therefore, our screen focuses on civil liberties – relying on the Freedom House ranking, modern slavery – relying on the Walk Free Foundation Global Slavery index, and child labor relying on Unesco data, with the aim of preventing investments in those countries where the worst practices are observed.

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<sup>5</sup> For more details on AXA IM Scoring Methodologies, please refer to <https://www.axa-im.com/responsible-investing/framework-and-scoring-methodology#scoring>

<sup>6</sup> As defined by various screens.

## Excluded Companies / Countries

Sector / Area	Exclusion criteria	Approach	Sources
<b>Tobacco</b>	- 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 may rely on external providers to prepare an initial list of issuers in scope.
<b>White Phosphorus Weapons Producers</b>	- 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.
<b>Severe controversies</b>	- Companies exposed to severe controversies		
<b>Violations of International norms and standards</b>	- Companies assessed as being “non-compliant” with the UNGC, OECD guidelines for MNE, ILO Conventions or UNGP for Business and Human Rights.		
<b>Low ESG Quality</b>	- Companies with a low ESG score (<2, scores between 0 and 10), using AXA IM ESG scoring methodology		AXA IM may consider exceptions to these exclusion rules based on a qualitative analysis demonstrating that the risks are mitigated in an efficient manner.
<b>Countries with severe human rights violations</b>	- Countries in the bottom quintile of the Civil Liberties index from Freedom House - Countries in the bottom quartile of the Modern Slavery index from the Walk Free Foundation - Countries in the bottom quartile of the Child Labor index of Unesco		An engagement can be initiated with the issuer in these cases <sup>8</sup> .

Sources: Sustainalytics, ISS Ethix, MSCI, Vigeo, Freedom House, Walk Free Foundation, Unesco.

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

<sup>8</sup> Progress of Engagement activities is monitored by the same RI governance committee.

## Scope

### *Instruments*

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

### *Portfolios*

The ESG Standards Policy applies in principle to all Responsible Investment open funds under AXA IM's management<sup>9,10</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.

## 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, therefore a transition period may be observed during their initial implementation for the funds / mandates in scope, and following periodic revisions of the exclusion-lists.

In very limited circumstances some funds or mandates may be allowed to continue to hold some targeted investments where complete disinvestment would clash with other key objectives of the portfolio<sup>11</sup>.

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.

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<sup>9</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. Those open-ended funds are categorised as products which promote ESG characteristics ("Article 8") or which have sustainable investment as their objective ("Article 9") according to the Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector ("SFDR"). Detail of the RI categories of each fund is available on demand.

<sup>10</sup> In the case of fund of funds applying the ESG Standards, at least 90% of underlying funds apply the standards.

<sup>11</sup> Such tolerance could be applied, for example in relation to strategies with Accounting objectives, or for concentrated strategies with appropriate validation from oversight functions.