



# **AXA Investment Managers - Engagement Policy**

April 2022

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# 1. Preamble

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At AXA IM, we consider investor engagement as a change process where investors seek to improve investee companies' practices with a specific objective in mind. We do this on behalf of our equity and bond holdings, in listed and non-listed markets.

This can be conducted in a variety of ways but more often than not, it is based around long-term and constructive dialogue between two parties. We define clear objectives for our engagement, share them with investee companies, and systematically track and record the progress of engagement. Where there is little progress, we will escalate the engagement in an appropriate fashion.

We take an active engagement approach, emphasising direct dialogue with companies on sustainability and governance issues that have a material impact on long-term financial performance. We also conduct engagement to contribute to the achievement of societal targets such as those defined by the United Nations' SDGs.

We determine our engagement priorities based on our observation of global market developments and emerging ESG practices. Our engagements are linked to our key thematic focus areas and we principally engage in a proactive fashion.

We use our research and analytical ability to identify issues and companies which most merit engagement. We engage with a view to a company acknowledging the issue and improving its practices before risks materialise and opportunities are lost. Where necessary, we also engage in a reactive fashion following controversies or breaches of international norms such as the United Nations Global Compact.

We will seek to meet and engage with representatives from all levels of the investee company. This includes the board, senior management and operational specialists, amongst others.

Some of the key ESG issues which our engagement programme focuses on, but are not limited to include:

- Climate change
- Biodiversity
- Environmental resource and eco-systems
- Human capital and diversity
- Public health
- Labour, customer, supply chain management
- Human rights
- Data privacy and security
- Business ethics
- Corporate governance and executive pay
- Controversies and breaches of international norms

The engagement we do is also framed by the expectations set in the UK Stewardship Code, the UN-backed Principles for Responsible Investment (PRI), the Taskforce for Climate-related Financial Disclosure (TCFD) and the many other industry initiatives which we support. The revised Shareholder Rights Directive (SRD2) also requires asset managers in the European Union to publicly disclose a shareholder engagement policy.

Whilst some of the engagement mechanisms described below apply more specifically to traditional listed assets, including equities and fixed income instruments globally, engagement is also part of our Responsible Investment strategy in the alternative investment sector, including Real Assets and Structured Finance. These sectors operate in fundamentally different ways and many do not benefit from market norms or benchmarks enjoyed by traditional listed assets. However, the principles of transparency and performance improvement act as important drivers of change.

AXA IM Engagement policy is revised annually and is validated by the RI Strategic Committee. Its implementation is overseen by the ESG Monitoring & Engagement and Corporate Governance committees. It is complemented by sectorial policies<sup>1</sup> which provide additional details on our engagement strategy for certain sectors and / or themes (incl. climate risks policy, ecosystem protection & deforestation policy, etc.).

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<sup>1</sup> [Our Policies | AXA IM Corporate \(axa-im.com\)](#)

## 2. Engagement with Corporates

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Engagement is about change and the AXA IM engagement programme is set up with achievable milestones, deliverables and reporting. We acknowledge changing cultural behaviour rarely happens overnight. Some companies might be more willing to listen to us than others. In most cases, it will need several interactions before reaching any concrete progress.

As a result, at AXA IM we have rolled out a clear process for selecting priorities, defining engagement objectives and a system for tracking engagement progress, with a range of possible outcomes and escalation points.

### **Selection of Priorities**

We seek to engage companies across our thematic in a constructive manner with identified and achievable goals. We challenge companies on their strategy and risks, financial and non-financial performance, and their commitments to strong environmental, social, and governance philosophies. Engagement can be triggered by the following situations:

- **Proactive:** AXA IM will engage in a pro-active fashion on some of the key ESG issues which our engagement programme focuses on, as listed on page 3.
- **Reactive:** Cases when we need to engage in response to a specific event. These may relate to severe controversies and violations of international norms and standards such as the OECD Guidelines for Multi-National Enterprises, or UNGC (UN Global Compact) breach, negative news flow or ban list updates.
- **Opportunistic:** We are often invited to attend conferences, roadshows or field-trips. This is an opportunity to learn more about companies' actions, policies and performance while at the same time updating them on our areas of focus and scrutiny.
- **AGM/Voting Driven:** Engagement driven by AGM and voting falls under two main possibilities:
  1. Engagement through pre-AGM call: Calls with top leadership and/or the Board of investee companies ahead of the AGM to gain clarity around governance issues and let companies know about our voting intentions at the upcoming AGM.
  2. Voting:
    - Voting at company meetings is an important part of how we communicate with investee companies. This is a fundamental aspect of our fiduciary duty to clients. We vote in a manner that is intended to be beneficial to the long-term, sustainable value of the companies in which we invest. Voting may occasionally also be used as an escalation option if we believe that engagement on a thematic issue has stalled.

More intense engagement is deployed for a **Focus list of companies** which is revised at least annually. The list is extracted from a broad engagement universe put together by the RI Experts teams, based on various inclusion criteria (e.g. materiality, size of exposures, thematic priorities, etc.) and validated in the ESG Monitoring & Engagement committee. A specific focus is made sectors which are targeted by AXA IM RI policies (incl. Climate risks policy, Ecosystem Protection & Deforestation policy)<sup>2</sup>. This is the priority list for which we expect regular individual engagement meetings, updates and progresses.

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<sup>2</sup> [Our Policies | AXA IM Corporate \(axa-im.com\)](https://www.axa-im.com)

## **Forms of Engagement**

We distinguish regular dialogue conducted with investee companies around their sustainability practices (referred to as “sustainability dialogue”) from active engagement with specific, identified objectives (referred to as “engagement with objectives”).

We consider the former to be key in establishing and developing a constructive relationship with the company, as well as gaining insights into its policies and practices. However, while it may feed into future potential targeted engagement, this type of dialogue is less intensive and mainly aims at gathering information.

In the case of engagement with objectives, which seek to influence change at investee companies, we define targeted objectives related to the key ESG issues as described in more details below.

## **Governance of Engagement**

### *Objective-setting*

For the “Engagement with Objectives” category described above, we define objectives for each of the companies we engage with, with clear targets, and the timeframe we consider appropriate to see progress depending on the nature of the objectives. We share these with investee companies at the outset of the engagement, and systematically track and record the progress of engagement as described below. Where there is little progress, we will escalate the engagement in an appropriate fashion.

We seek to engage companies at the most appropriate level for our engagement objective. This may mean we seek to target higher levels of the corporate hierarchy where we feel it is deemed necessary.

While our belief is that long-running confidential and constructive discussions based on trust is often the most effective way to create change over time, we also value transparency and may communicate externally on our engagement activities in selected cases.

### *Tracking, Escalation, and Conclusion*

AXA IM has established a system for tracking dialogue and engagement progress with investee companies in traditional asset classes.

Each and every time an interaction with a company is logged, an engagement report is uploaded and made visible to all AXA IM investment platforms.

Sometimes the engagement stalls and we need to escalate. Escalation of the discussion through other means and/or at other levels of the hierarchy are options we can utilise in order to progress on our engagement asks. An escalation strategy is therefore determined for every engagement activity, which may include:

- Targeting higher level of the corporate hierarchy;
- Collaborating with other investors (including through joint public statements in certain cases);
- Voting against resolutions at the AGM, and informing investee companies in advance of the AGM of such votes and of the rationale behind them when possible;
- Co-filing resolutions at the AGM; or

- Divestment.

Where relevant, we will aim to ensure our Public Policy engagement activities will facilitate the achievement of engagement objectives for Corporates, especially when those require changes in regulatory framework.

### **Three Strikes and You're Out Mechanism**

The Three Strikes and You're Out Mechanism is a more forceful engagement policy that aims at applying sufficient pressure to effect timely change within a selection of companies which are considered to be materially lagging vs peers on a given topic, or failing to meet baseline expectations, representing a higher risk. Clear objectives are defined for each of those companies, which follow our engagement policies and are tailored to their activities and communicated to their management at the inception of the engagement. AXA IM engages regularly with those companies to steer them to achieve progress on those objectives, using escalation techniques when necessary (e.g. voting against management). If the objectives have not been achieved after three years, we will divest.

This policy applies to a selection of companies which do not have Net Zero commitments, or which have quantified emissions reduction targets which are deemed not be credible or demanding enough. A similar approach, although less systematic, may also be taken for engagement on other themes, if the desired outcome has not been reached.

### **Oversight by Governance Committees**

The deployment and success of the engagement efforts across AXA IM traditional asset classes is overseen by two Committees:

- *The ESG Monitoring and Engagement Committee*

Committee members include representatives of investment platforms, RI Experts teams as well as Compliance and Risk teams. Meetings are held on a quarterly basis. The Committee will ensure coordination of engagement actions and regularly review progress achieved on the engagement focus-list. In particular, proposals to escalate may be discussed with the committee, as well as successes. The committee will also review controversies impacting holdings and discuss possible decisions. In some cases, severe controversies will not necessarily translate into an automatic exclusion but will rather call for a dedicated engagement to assess breadth of the controversy and quality of corporate responses.

- *The Corporate Governance Committee*

Committee members are drawn from investment teams, RI Experts teams, Compliance and Middle Office. Its over-arching role is to oversee AXA IM's corporate governance, stewardship and voting activities in relation to investee companies and ensure clients' rights and obligations are exercised in line with good practice standards. It is the body in charge of updating the Corporate Governance and Voting Policy as well as the Engagement Policy while making sure they are consistent with market developments. Evolution of thematic voting policy is closely tied to the engagement work that is undertaken.

### **3. Public Policy Engagement**

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As the Sustainable Finance regulatory agenda intensifies, we work with regulatory authorities and policymakers to ensure that public policy supports an investment environment which takes seriously sustainability and responsible investment issues. In particular our public engagement aims to contribute to ensuring the regulatory framework under development promotes effective comparability, transparency and robustness in the ESG approaches developed by the financial sector.

In addition, AXA IM is an active member of several industry initiatives – at global and local levels – which pursue the same objective. Involvement with policymakers and industry groups is a key part of our active ownership and stewardship strategy.



## 4. Collaborative Engagements

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While most of our engagement is based solely on our own efforts, we also believe that collaborating with other likeminded investors and stakeholders can help us to achieve our goals. Indeed, using a collective voice is a powerful engagement tool.

In most cases, we think collaborative initiatives should serve to bolster and not replace individual engagement. This explains our decision to use a well-thought combination of the two.

We adopt a selective approach when deciding which collaborative initiatives we will participate in or support, focusing on topics and groups where we believe our involvement will have a material impact.

Since 2019, we have been contributing to/or supporting a number of initiatives, such as: Climate Action 100+, 30% Investor Club, Access to Medicine Index, Climate Bonds Initiative etc. We seek to take a leadership role as often as possible.

## 5. Voting

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At AXA IM we consider voting to be a crucial aspect of being an active shareholder. It is an important part of the investment process and an opportunity to influence the company. Our voting and engagement activities are closely aligned. We regularly engage companies before and after the vote.

AXA IM has established a Corporate Governance Committee which is responsible for overseeing the implementation of AXA IM's Corporate Governance & Voting Policy to the companies in which we are invested on our clients' behalf. The Committee's role is to ensure that our votes are pragmatic and take account of the investment perspectives and particular circumstances of relevant companies.

We vote against items at annual meetings where we consider that the specific proposals are not in the best interests of our clients. These include wide-ranging concerns such as suitability of individual directors, board oversight of key risks and strategy, executive pay, dividend and capital related issues and diversity as well as transparency and reporting. We also vote against proposals as a method to escalate our engagement when it is not sufficiently progressing, especially as related to our key thematic.

While local best practice codes may adopt different approaches, we expect all companies to seek to closely align with our core global governance principles which set out the fundamentals of corporate governance. AXA IM considers these principles in conjunction with our region-specific policies in our voting and engagement activity, with all companies globally.

AXA IM publicly discloses its voting. It is updated on a quarterly basis and we provide the rationale for why we voted against management. These reports are accessible on our website.

Our voting policy can be found [here](#), or via the Stewardship page on our website.

## 6. Reporting and Transparency

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At AXA IM, we are committed to providing transparency and regular reporting on active ownership, both internally and externally.

Every engagement is recorded following the event. We ensure that our engagement activities and their progresses are available across asset classes. The concentration of engagement reports on a dedicated platform is key to provide our internal stakeholders and our clients a fund-specific reporting on engagement.

For external stakeholders and clients, we report on our engagement activities through:

- Engagement reports at fund level for ESG and RI open funds, available on AXA IM Fund Center. These reports are also available on demand for dedicated funds / mandates ; and
- An annual Active Ownership & Stewardship Report. It is published annually on the AXA IM website. The intention of this report is to demonstrate the evolution and impact of our engagement programme through our activities during the current year.

Lastly, we also have a dedicated Active Ownership section within the Responsible Investment Part of the AXA IM website.

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