



Overall approach of Article 173 of the

# **French Energy Transition for Green Growth Act**



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In August 2015, against the backdrop of an international boom in the run-up to COP 21, France passed into law its ambitious Energy Transition for Green Growth Act. Article 173(VI) of the Act effectively introduced the world's first regulatory framework requiring institutional investors to make information available to clients on their management of climate-related risk and, more broadly, on the incorporation of environmental, social and governance parameters into their investment policy.

This transparency requirement is intended both to improve communication and to make institutional investors more aware of issues and risks relating to the energy transition for green growth.

While Article 173 lays down no explicit obligations as regards investment decisions, it is intended to bolster the role of institutional investors in financing the transition to a low-carbon economy and to encourage better incorporation of environmental, social and governance (ESG) criteria into investment processes.

Some 18 months after going onto the statute book, the Act has already had a major impact on both investors and asset managers. We are convinced that it has added further sustainable impetus to the push for all those involved (investors and companies) to be more transparent about their climate impact.

# 1. Our Philosophy

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The world is currently facing huge challenges, including climate change and social inequality. AXA IM firmly believes that, in this context, developing sound responsible investment (RI) expertise is no longer an option but a necessity. Accordingly, AXA IM is actively engaged in an approach of progressively incorporating ESG (environmental, social and governance) factors into each area of management expertise, and in the development of a range of innovative responsible- and impact-investment products.

We at AXA IM have been involved in responsible investment for around 20 years and are convinced that being a responsible asset-management company is crucial to our long-term success. We believe that ESG factors can influence, not just the management of investment portfolios across all asset classes, sectors, companies and regions, but also a range of interests affecting clients and other stakeholders. As a major player in the financial services sector, which has the chance to make a difference, AXA IM runs its operations responsibly.

Our investment philosophy is based on the conviction that sustainable development issues are a major

concern for the coming years. We believe that combining fundamental non-financial factors with traditional financial criteria will help us build more stable portfolios that perform better over the long term. The non-financial approach has become a necessity in more ways than one:

1. It is instrumental in removing companies from portfolios when they cause exposure to high levels of ESG risk, which would ultimately affect financial performance
2. It focuses portfolios on companies that have implemented best practice as regards managing their environmental impacts, governance and social practices, and whose responsible practices leave them better prepared, in our view, to meet the major challenges of the future
3. It enables improved performance by means of active dialogue with companies on managing ESG concerns around investments and limiting our clients' exposure to reputational risk

# 2. Our responsible investment policies

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As a responsible investor, AXA IM has decided to implement a number of policies ruling out certain activities. All our investments benefit from AXA IM's policy of ruling out coal, controversial weapons, agricultural derivatives and palm oil not certified by the Roundtable on Sustainable Palm Oil (RSPO).

For more information on the RI policy, visit:  
<https://www.axa-im.com/en/responsible-investing>

AXA IM's voting and engagement policy can also be found at: <https://www.axa-im.com/en/stewardship?linkid=responsibleinvesting-menu-stewardship>

### 3. Our ambition: to incorporate ESG throughout our investment process

Our commitment to developing responsible investment goes right back to the early days of AXA IM. AXA IM strives for its RI know-how not to be limited to a niche offering. From the outset, we have been convinced that RI is of great significance for all investments, and that the attention given to ESG matters must be spread across and incorporated into all asset classes and specialist investment teams.

AXA IM's ambition is to incorporate and follow ESG criteria in its various investment strategies; to develop specific, innovative and pragmatic RI and impact-investment<sup>1</sup> funds; and to put in place RI solutions and RI-advice services for our clients.

Over the years, AXA IM has developed an approach and an offering capable of meeting all our clients' needs, geared to their sensitivity:

<sup>1</sup> That have a positive social impact.

- Systematic accounting for the most material exposure risk types
- Incorporation into our management processes
- Specialist- or impact-management strategies

That ambition has been guiding our determined and methodical development of skills in this area for some two decades.

We give concrete expression to this by making available [RI Search](#)®, our proprietary ESG-analysis platform (launched 2008), which aggregates and distributes ESG data.

AXA IM managers are actually now able to incorporate ESG aspects into their underlying investment processes, by applying a series of methods proposed by AXA IM's RI team, in line with our clients' demands. To achieve that, we ensure AXA IM's specialist investment teams enjoy direct access to all our ESG research and constant dialogue with our ESG analysts.



Source: AXA IM on 31/12/2017

Award granted by the French Environment Ministry.

Reference to past ranking and awards is no guide to future rankings and awards. This information is inherently subject to change.

## 4. Our ESG-analysis methodology

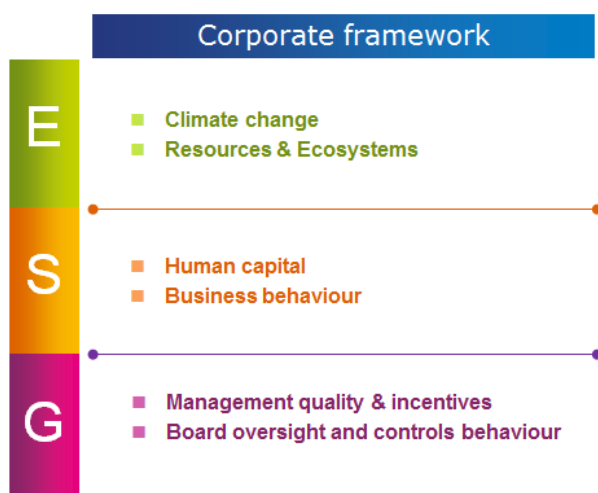
### a) Core principles

**Analysis of the ESG quality of corporate and sovereign issuers is guided by a shared methodology.** The ESG criteria are determined by AXA IM's RI team, using a mix of qualitative and quantitative perspectives.

#### Corporate issuers

For companies, we have developed a three-pillar and six-factor frame of reference that covers the main issues encountered by businesses in the environmental, social and governance fields. The frame of reference draws on fundamental principles, such as the United Nations Global Compact,<sup>2</sup> the OECD Guidelines, International Labour Organisation conventions, and other international principles and conventions that guide companies' activities in the field of sustainable development and social responsibility. The same analysis methodology is applied to the equities and corporate bonds of all companies. The final ESG rating also incorporates the concept of industry-dependent factors and deliberately differentiates between sectors, so as to overweight the most material factors for each industry. Materiality is not limited just to impacts relating to a company's operations, but also to the impacts of its stakeholders and the underlying reputational risk arising from a poor grasp of major ESG issues.

The ESG analysis criteria for companies considered by the RI analysts are:

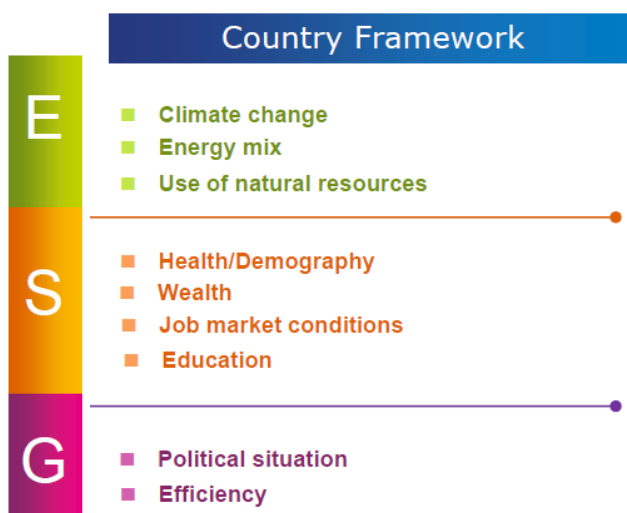


Source: AXA IM

#### Sovereign issuers

We have also developed a country-rating model based on data from public bodies, such as the World Bank, the OECD and the UN. We currently cover over 100 countries, developed and emerging. This approach makes countries' ESG appraisal central to the notion of sustainable development. Key issues, such as the country's stance on the major climate, social and political risks are assessed, taking account of each nation's direction of travel and progress over the long term.

The ESG analysis criteria for sovereigns considered by the RI analysts are:



Source: AXA IM

<sup>2</sup> United Nations initiative launched in 2000, with a view to encouraging companies worldwide to adopt a socially responsible stance, by committing to incorporate and promote a number of principles as regards human rights, international labour law and combating corruption.



## b) Description of the ESG-analysis methodology

### Corporate issuers

#### ESG-analysis model

AXA IM's frame of reference for analysis is built on three pillars: environmental, social and governance.

For each pillar, key themes have been identified. Those themes comprise six factors, which are then divided into 13 sub-factors.

Pillar	Factor	Sub-Factor
E	Climate change	
	Resources and Ecosystems	
S	Human Capital	Career development
		Working conditions
		Company-union dialogue
	Business Behaviour	Human rights/community
		Consumers
		Suppliers
G	Board oversight and controls	Professional ethics
		Board of directors structure
		Oversight and transparency
		Shareholder's rights
	Management quality & incentives	

Source: AXA IM

#### Selection of external ESG-data suppliers

An in-depth analysis has been conducted into ESG-data suppliers to select the most relevant information.

The results of this study led to the selection of three rating agencies (MSCI, Sustainalytics, Vigeo) and the activation of 53 raw scores.

#### Raw score calculation

Each factor and sub-factor of AXA IM's corporate ESG frame of reference has raw scores fed into it, obtained from our partner rating agencies using a proprietary allocation matrix. Having standardised the necessary data to take account of the specifics of each source, they are aggregated and a score of 0 to 10 is calculated for each factor and sub-factor.

The processing of controversies is an entirely separate stage; the most material controversies automatically result in a lower ESG score.

Companies' ESG evaluations are updated every six months. The list of criteria and sectoral weighting matrix to apply to the various ESG sub-criteria are regularly reviewed for a better grasp of the most significant issues for each sector and for identification of the data suppliers that best match up with the sectoral analysis frame of reference. The goal is an ESG score that best reflects the Responsible Investment team's ESG-analysis convictions and each issuer's intrinsic ESG quality. With that in mind, we give equal weight to financial materiality and companies' impacts on the environment, communities and the economy, in equal measure. We ensure that the most serious controversies are monitored.

Each sphere of investment has been broken down into 16 sectors, with the classification combining a rationale that is both ESG and financial.

A raw ESG score is calculated as the weighted average of each sub-factor of the AXA IM corporate ESG frame of reference, with the weighting varying from sector to sector on the basis of a proprietary weightings table.

#### Adjustment of the overall ESG score

The sphere of investment is split into four regional groups: North America, developed Asia/Pacific, developed Europe and emerging economies.

Within each group, the overall ESG score is standardised on a scale from 0 to 10.

This balanced apportionment of scores ensures:

- Better interpretation of the issuer's ESG score, which could translate to five RI-quality bands (poor, below-average, average, above-average and high);
- The promotion of ESG best practice, whatever the sphere of investment, without compromising the portfolio's diversification.

### Sovereign issuers

#### ESG-analysis model

The ESG-rating model for countries comprises nine factors and covers some 50 ESG indicators.

#### ESG-data selection

For governmental and quasi-governmental issuers, we rely on environmental, social and governance indicators published by recognised international sources, such as the World Bank or the OECD.

For environmental: CO<sub>2</sub> emissions in relation to population and to economic activity, the energy mix,<sup>3</sup> renewables and pressure exerted on natural resources (water, forests, etc.).

For social: population ageing, life expectancy, Gini coefficient<sup>4</sup> of income distributions, risk of poverty, the Programme for International Student Assessment<sup>5</sup> and the youth unemployment rate.

For governance: the World Bank's indicators (democracy, effectiveness of laws, rule of law, political stability, corruption control, etc.), but also the ease of

<sup>3</sup> Distribution of the various primary energy resources consumed for the production of various energy types.

<sup>4</sup> The Gini coefficient, according to the French Statistics and Economic Studies Institute (INSEE): The Gini coefficient is an indicator summarising wage inequality. It ranges from 0 to 1. It is 0 in a situation of perfect equality, where all wages, incomes and living standards are the same. At the other extreme, it is 1 in a situation of the greatest possible inequality, where all wages, incomes and living standards, except for one, are zero. Between 0 and 1, the higher the Gini coefficient, the greater the inequality.

<sup>5</sup> Study conducted by the OECD since the start of the 2000s to assess the level of 15-year-old students and, therefore, to measure the performance of the education systems of the Organisation's 34 member countries.



doing business index (World Bank) and the proportion of the national debt left to future generations.

#### Calculation of ESG scores and standardisation by ESG-maturity level

Each score is standardised and then weighted by factor.

An ESG score is calculated as the average of the scores for the constituent factors and taking account, not just of the current level of each indicator, but also its direction of travel.

Countries are rated on a scale from 0 to 10 (0 for the worst score, 10 for the best). The ESG scores are given equal weighting and take account of the changes to each indicator over time.

The scores are also calculated in relation to each country's level of ESG development/maturity (mature countries compared with countries making improvements).

#### Property

##### ESG-approach model

Our goal is to improve the sustainable development performance of existing buildings, and to buy and develop sustainable buildings.

Our approach to incorporating ESG is based on four pillars that demonstrate three major benefits: ease of understanding and monitoring ESG performance, effectiveness of measuring ESG performance, and

longevity on the basis of a strategy that increases stakeholder engagement.

The four stages are:

1. **Environmental certification:** the goal of our 2030 vision – launched in 2015 – is to have 75% of our assets under management certified by 2030.
2. **ESG rating:** our methodology for calculating the ESG score is based on three components: a building score based on 15 questions, a building-manager score and a country score. Using this questionnaire, we can identify the risks and opportunities derived from each threat, taking account of property-specific ESG issues.
3. **ESG action plan:** an action plan based on a number of questions intended to improve each asset's ESG performance and carbon footprint.
4. **ESG footprint:** the measurement of an asset's environmental and social impact. Via our web platform dedicated to the gathering and monitoring of key ESG performance indicators from our property managers, we calculate the ESG footprint every year (energy consumption, CO<sub>2</sub> emissions, water consumption, etc.).

Our goal is to improve the ESG quality and performance of the assets we manage.

#### ESG-criteria selection

	E	S	G
Property	Energy performance, environmental certification, carbon footprint, water consumption, waste management, etc.	Health and safety risks, accessibility, engagement with stakeholders, etc.	Transparency, management with stakeholders, green lease, etc.
Property manager	Same approach as described in 4.2.1.		
Country	Same approach as described in 4.2.2.		

## Private debt

For the asset classes of commercial property loans and infrastructure-related debt, non-financial criteria are taken into consideration at the purchase stage. A scoring methodology specific to those two asset classes has been developed for the purpose of allocating an ESG score taking into account some 20 criteria. The approach

has been developed in line with direct property and makes it possible to put a value on the financing of assets of high environmental quality that enjoy environmental certification, or the financing of infrastructure projects in sectors that are in accordance with the United Nations' Sustainable Development Goals.

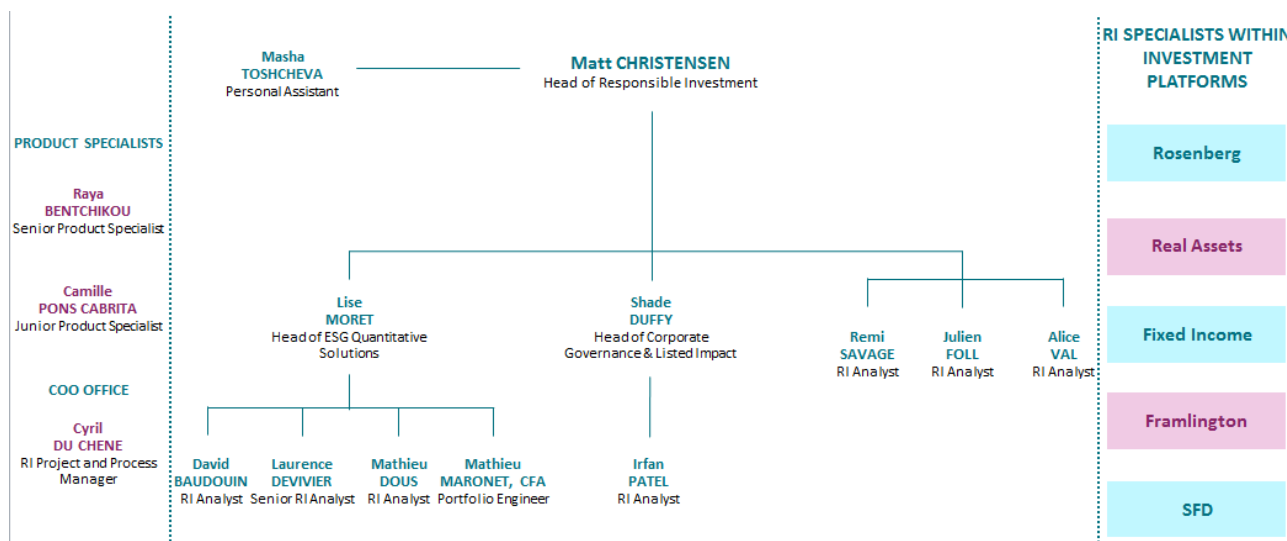
## 5. Resources for achieving integration

### a) Human resources

Since 1997, AXA IM has been investing significant resources in building its Responsible Investment team, which now comprises 15 staff. The Responsible Investment team works with our various management platforms to incorporate ESG factors into our investment processes. Our RI team's range of knowledge and know-how covers basic research into ESG, quantitative analysis, engagement and controversy-monitoring, as well as any legal issues around corporate governance.

The Responsible Investment team works hand-in-hand with the RI representatives in each asset-management platform, which adds up to a Responsible Investment community totalling more than 20 people. Internal research by the RI team is combined with external research by rating agencies for calculating ESG scores, which are used to put together responsible investment funds. By combining external research with our ESG-analysis expertise, we can introduce greater conviction and relevance to the ESG information collected by the market and adapt it to AXA IM's philosophy.

The RI team is headed by Matt Christensen; its members have, on average, 12 years' experience in the industry.









Source: AXA IM on 31/12/2017<sup>6</sup>

<sup>6</sup>Details of members of the AXA Investment Managers Responsible Investment team and/or AXA Investment Managers are provided for information purposes only. We cannot guarantee that these staff members will remain employed by AXA Investment Managers, or that they will work or continue to work in the AXA Investment Managers Responsible Investment team.

## b) Technical resources

The RI team bases its analysis models on a range of internal and external data sources: ESG-rating agencies, broker research, and company and press publications.

SUPPLIERS	STRENGTHS	ADDED VALUE
	<ul style="list-style-type: none"> <li>▪ Risks and opportunities approach</li> <li>▪ Approach based on key aspects by sector (the most material)</li> <li>▪ Strong experience in governance matters</li> </ul>	<ul style="list-style-type: none"> <li>▪ Specialist in governance and environmental analysis; Broad coverage – 8,000 companies</li> </ul>
	<ul style="list-style-type: none"> <li>▪ Wealth of expertise in monitoring controversies</li> </ul>	<ul style="list-style-type: none"> <li>▪ Leading analyst of controversies and reputational risk</li> </ul>
	<ul style="list-style-type: none"> <li>▪ High degree of data granularity, particularly on social aspects</li> </ul>	<ul style="list-style-type: none"> <li>▪ Methodology based on analysing stakeholders from the leadership, implementation and results perspectives</li> </ul>
	<ul style="list-style-type: none"> <li>▪ Carbon-footprint measurement</li> </ul>	<ul style="list-style-type: none"> <li>▪ One of the market leaders in environmental analysis</li> </ul>
	<ul style="list-style-type: none"> <li>▪ Relevant governance analysis</li> </ul>	<ul style="list-style-type: none"> <li>▪ Global coverage with an exclusion approach and a tracking list</li> </ul>
	<ul style="list-style-type: none"> <li>▪ In-depth analysis of governance issues</li> </ul>	<ul style="list-style-type: none"> <li>▪ French market focused; has in-depth knowledge of both companies and regulators</li> </ul>

We also collect raw quantitative data (percentage of women on the Board of Directors, percentage of renewable energy, training budget as a proportion of payroll, employment trends, etc.) through our brokers, through our data platforms – Factset, Datastream Thomson-Reuters and Bloomberg – and through our direct contacts with companies.

That information is incorporated into the functionalities of RI Search®, our proprietary platform, which distributes it to all AXA IM front office systems. The managers have an ESG-rating grid, based on a scale from 0 to 10, for over 6,500 companies, along with research conducted internally on those issues, AGM results, etc.

## 6. Voting policy and engagement

AXA IM has published a Corporate Governance and Voting Policy, available in English here: [https://www.axa-im.com/documents/20195/618080/2017\\_Corporate+governance+voting+policy\\_en.pdf/c744f19d-9027-ecda-fe8e-2a5b642d27ea](https://www.axa-im.com/documents/20195/618080/2017_Corporate+governance+voting+policy_en.pdf/c744f19d-9027-ecda-fe8e-2a5b642d27ea). We have also been publishing an annual engagement and shareholders report since 2015.

Voting at general meetings is an important element of the dialogue between a company and its shareholders; as an asset-management company, this is a core element of our fiduciary duty towards our clients. AXA IM's Corporate Governance and Voting Policy is based on solid principles at international level. Our policy is based on principles of good corporate governance that protect shareholders' long-term interests.

What is more, in parallel to our voting policy at global level, we have developed specific voting policies for some markets, to take account of governance practices that differ from country to country, and of the requirement for the companies in which we invest to be subject to local laws and regulations.

### a) Presentation of our voting overview

During 2016, overall, we exercised our clients' voting rights in line with our investment footprint. We do not vote in markets that still require investors to block shares or that have tangled up the exercise of voting rights in red tape.



#### Votes against management

We did not fully support management at

**2,275** general meetings, or

**40%** of relevant general meetings

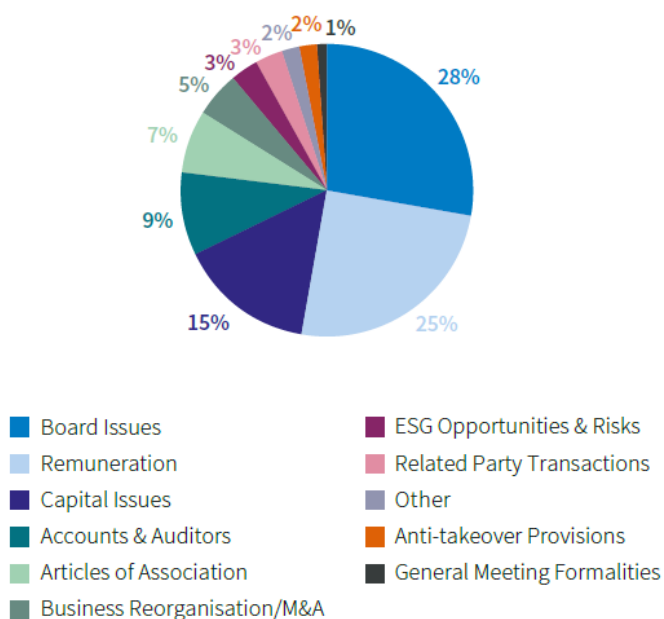
We voted against or abstained on

**5,575** resolutions, or

**9%** of resolutions voted.

This level of dissension underlines our commitment ensuring that votes are cast to promote our clients' long-term interests.

#### Global votes against management



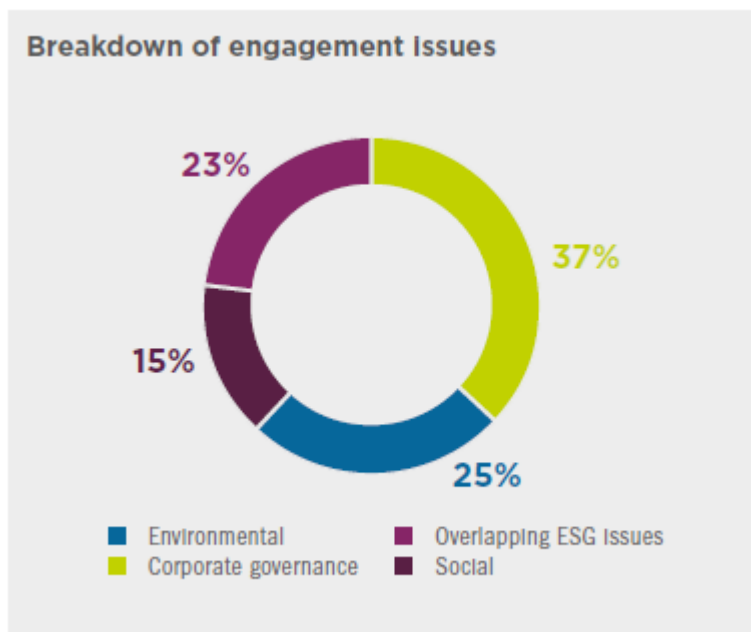
Source: AXA IM, as at 31 December 2017

## b) Engagement

Through our engagement activities, our aim is to use our influence as investors to encourage companies to mitigate environmental and social risks relevant to their sectors.

Over the course of 2016, we stepped up our engagement activities relating to, among other things, alleviating climate change. As a very large-scale investor

we are convinced that we have a role to play in limiting global warming to a 2°C scenario. In particular, we believe that the systemic nature of climate change requires investors to aggregate collective influence to bring about necessary change. We continue to review our engagement strategy on this issue and are currently considering additional engagement objectives directly relating to climate change.



Source: AXA IM on 31/12/2017

### Our global engagement activities



**87**  
targeted  
companies



**5**  
collaborative  
initiatives

## c) AXA IM engagement and initiatives

AXA IM signed up to the UN's Principles for Responsible Investment (PRI) in May 2007. The details of how we implement the six principles of the UN PRI are set out below.

AXA IM provided technical support in the setting-out and implementation of the AXA Group's RI policies in the context of our investment activities. This made AXA IM one of the first companies with a long-standing commitment to socially responsible investment (SRI) and corporate governance, which is the basis of our RI work today.

Principles	How does AXA IM implement this principle?
<b>Principle 1</b> – <i>We will incorporate ESG issues into investment analysis and decision-making processes.</i>	<ul style="list-style-type: none"> <li>▪ RI Search© (see below for more information)</li> <li>▪ Membership of the Automatic Exchange of Information (AEOI), which encourages research companies to tackle important non-financial issues</li> <li>▪ Active programme of staff education and awareness-raising (workshop on climate change, human capital and governance)</li> <li>▪ Process of continual RI examination for AXA IM funds aimed at the general public</li> <li>▪ Calculation of the ESG footprint for all portfolios</li> <li>▪ Incorporation of ESG analysis into CeReS, an internal credit-analysis tool</li> </ul>
<b>Principle 2</b> – <i>We will be active owners and incorporate ESG issues into our ownership policies and practices.</i>	<ul style="list-style-type: none"> <li>▪ Corporate governance policy updated with non-financial issues</li> <li>▪ Commitment to work with issuing companies</li> <li>▪ Long-standing commitment to voting on behalf of clients</li> <li>▪ Working with other investment managers to table resolutions asking companies to remove anti-shareholder provisions from their articles</li> <li>▪ Corporate governance committees in London and Paris, playing a top-level role in carrying out our ownership activities</li> <li>▪ Active membership of or working with the French Fund Management Association (AFGF), the International Corporate Governance Network (ICGN), the UN PRI and the AEOI</li> </ul>
<b>Principle 3</b> – <i>We will seek appropriate disclosure on ESG issues by the entities in which we invest.</i>	<ul style="list-style-type: none"> <li>▪ Engagement activity asking companies to improve their disclosure on ESG issues (letter sent to companies that do not respond to the Carbon Disclosure Project (CDP)<sup>7</sup> on their strategies for combating climate change) and corporate governance engagement</li> <li>▪ Provide advice on the CDP and the particularly active role in the debate on “corporate reporting” in France</li> </ul>
<b>Principle 4</b> – <i>We will promote acceptance and implementation of the Principles within the investment industry.</i>	<ul style="list-style-type: none"> <li>▪ Membership of and working partnerships with initiatives encouraging acceptance and implementation of ESG issues in the industry (one of the few major fund managers to be a member of the AEOI and PRI)</li> <li>▪ Sponsorship of university research into RI</li> <li>▪ AXA IM offers its clients bespoke training</li> </ul>
<b>Principle 5</b> – <i>We will work together to enhance our effectiveness in implementing the Principles.</i>	<ul style="list-style-type: none"> <li>▪ Participation in and working partnerships with initiatives encouraging acceptance and implementation of ESG issues in the industry</li> </ul>
<b>Principle 6</b> – <i>We will each report on our activities and progress towards implementing the Principles.</i>	<ul style="list-style-type: none"> <li>▪ Annual report with statistics on AXA IM’s voting activity, available on the website</li> <li>▪ Twice-yearly publication of RI <i>Inside Review</i>, an internal bulletin on RI issues</li> </ul>

Source: AXA IM

AXA IM is also a member of numerous international ESG initiatives and organisations.

AXA IM is committed to transparency and respects all the recommendations of the European directive on ESG transparency. AXA IM also works with regulatory authorities and decision-makers to ensure that public policy supports an investment environment that takes RI issues into account.

<sup>7</sup> Global disclosure system, which enables companies, and local, regional and national governments to manage their environmental impacts.

A list of international and national initiatives promoting RI and sustainable investment to which AXA IM has signed up is out below.

Organisation / Initiative	Description	AXA IM's role
European Funds and Asset Management Association (EFAMA)	Institution supporting the management of clients' assets in the European investment industry	AXA IM is a member of EFAMA's corporate governance and RI working groups
EuroSIF and local SIFs – French SIF	A collaborative initiative intended to promote RI and influence authorities to promote it	Within EuroSIF, AXA IM is a member of the SRI-methodology working group; a member of our RI team is Chair of the Research Committee at the French SIF
Global Impact Investing Network (GIIN)	The Global Impact Investing Network (GIIN) is a not-for-profit intended to increase the scale and effectiveness of impact investment	Member of the network and active participant, which includes talking about important subjects at GIIN events
Global Investors Governance Network (GIGN)	An informal network of institutional investors intended to promote debate on corporate governance	Participation in collaborative engagement activities
French Fund Management Association (AFGF) – Corporate governance committee and SRI	Institutions working together to promote RI issues and build corporate governance principles into the French investment environment	AXA IM currently chairs the fragmentation-bombs working group, seeking to produce guidelines for the French asset-management community on how to apply the French law requiring the exclusion of cluster bombs and anti-personnel mines from investment portfolios
Association of British Insurers (ABI) – Investment Committee and Remuneration Committee	Institutions in the UK are striving to build corporate governance principles into the investment environment	AXA IM is a member of the Investment Committee and the Remuneration Committee, and is involved in the action plans for producing and reviewing best practice on executive remuneration in the UK
Council of Institutional Investors (CII)	A joint initiative run by institutional investors and asset-management companies, intending to work with decision-makers to improve corporate governance standards in the US	Developing and contributing to the forum's debates
Green Rating Alliance (GRA)	Member-run collaborative forum made up of investors/owners, asset-management companies, audit firms, industry bodies and suppliers of technological solutions throughout Europe	Member of the Board; Involved in the project since 2007, took part in founding the Green Rating Association in 2011



<b>Global Real Estate Sustainability Benchmark</b> <b>(GRESB)</b>	An industry-focused organisation committed to evaluating property portfolios' sustainability performance throughout the world	Member of the Advisory Committee and Reference Committee since 2011, taking part for the last three years
<b>United Nations Environment Programme Finance Initiative</b> <b>(UNEP FI)</b> <b>Property Working Group</b>	Global partnership between UNEP and the financial sector, working with UNEP to understand the impact of social and environmental considerations on financial performance	AXA IM Real Estate has been a member since 2003
<b>Institutional Investors Group on Climate Change (IIGCC)</b> <b>Property Group</b>	Provides investors with a collaborative platform for raising climate-change issues	AXA IM Real Assets has been a member since 2012
<b>Carbon Disclosure Project</b>	The CDP works with shareholders and companies towards large companies' disclosure of their greenhouse-gas emissions	AXA IM has been a member since 2006
<b>Responsible Investment Association Australasia</b>	This industry body represents responsible and ethical investors in Australia and New Zealand	

Source: AXA IM

AXA IM also takes part in the following international initiatives: the International Corporate Governance Network (ICGN), the CDP Forests Programme, the Responsible Investment Forum (FIR), the Council of Institutional Investors, Eumedion, the Dutch Association

of Investors for Sustainable Development (VBDO), the Investment Association (UK), the Green Bond Principles (GBP) and the Climate Bonds Initiative (CBI).

In 2017, AXA IM was also elected to the Executive Committee of the Climate Bonds Initiative.

## 7. Incorporation of ESG issues into our investment portfolios: 85% of our AUM

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In 2008, AXA IM decided to incorporate environmental, social and governance criteria into all of its analyses of issuers or issues, and their management processes. We made that decision because we believe that companies which ensure they are responsible and sustainable are more profitable than those which do not. As a result of that decision, we had to take on more members of the ESG team, develop IT tools and go further with integration, using training specific to each management team.

Now, ESG incorporation features alongside simplicity of offering and sustainability as one of the three fundamental principles of the AXA IM brand.

What does this mean for clients?

Every time that an institutional client, private or distributor, entrusts the management of its portfolio to us, it benefits from our first level of SG incorporation, which consists of:

- Ruling out the following controversial activities: companies producing cluster and depleted-uranium bombs, producers of palm oil that is not RSPO-certified, agricultural derivatives and, lastly, companies that generate over 50% of their turnover from coal-based electricity generation or from coal extraction. Those are automatically ruled out for all our funds, except where a client requests otherwise in relation to ruling out something not covered by the regulations. Index funds<sup>8</sup>, structured funds<sup>9</sup>, funds of funds, external vehicles and assets under management as a joint venture<sup>10</sup> do not fall under the scope of the RI policy.
- Moreover, all managers have access to the ESG scores and research produced by the Responsible Investment team through their front office tools.
- For equity funds, we actively exercise our voting rights and play a part, collectively or individually, in engagement processes. The aim is to influence companies' practices as soon as we have identified pathways to improvement as regards the various ESG issues. We maintain an active dialogue with the companies that we have in our portfolio, both directly, through our portfolio managers, and at the level of our Responsible Investment team.
- In line with Article 173 of the Energy Transition for Green Growth Act, we have made ESG reporting standard procedure for all funds sold in France, which enables clients to have additional information on their portfolio's

ESG performance, to discover the ESG issues for the main positions in their portfolio and to assess changes to the ESG indicators. We have also enhanced our reporting, with a climate section that details the CO<sub>2</sub> emissions associated with investments held in a portfolio, and the portfolio's contribution to activities that support the energy transition. A study is currently being conducted to bolster this section with an estimate of climate and transition risks. Identification of the most exposed companies will enable a dialogue between issuers and clients as regards the possibility of pivoting towards a lower-carbon economy.

Those are the minimum ESG standards for all our funds/mandates and they cover EUR 599 bn in assets as of 31<sup>st</sup> December 2017. This sum does not correspond to our total assets under management, since index funds, structured funds and funds managed as a joint venture are exempt, as explained above.

We have decided to expand our ESG incorporation approach. In addition to identifying ESG risks and opportunities and to taking account of those elements in our basic financial research, we have decided to incorporate this aspect into our investment processes. That translates into taking ESG criteria into account at the level of investment recommendations and to setting ESG targets, in terms both of scores and of ESG key performance indicators. This approach now covers EUR 419 bn in AUM as of 31<sup>st</sup> December 2017, a large proportion of which represents investments of the AXA Group's euro-denominated fund.

Managers who incorporate ESG criteria into their investment process all have the goal of keeping up or improving their portfolios' ESG scores. For some, their sphere of investment has been reduced by 20% to 50%. To support investment decisions, the Responsible Investment team meets every month with the managers of the various investment platforms to discuss the ESG issues most relevant to each sector, to identify the winners and losers on each of these issues, and to direct ESG progress within each portfolio.

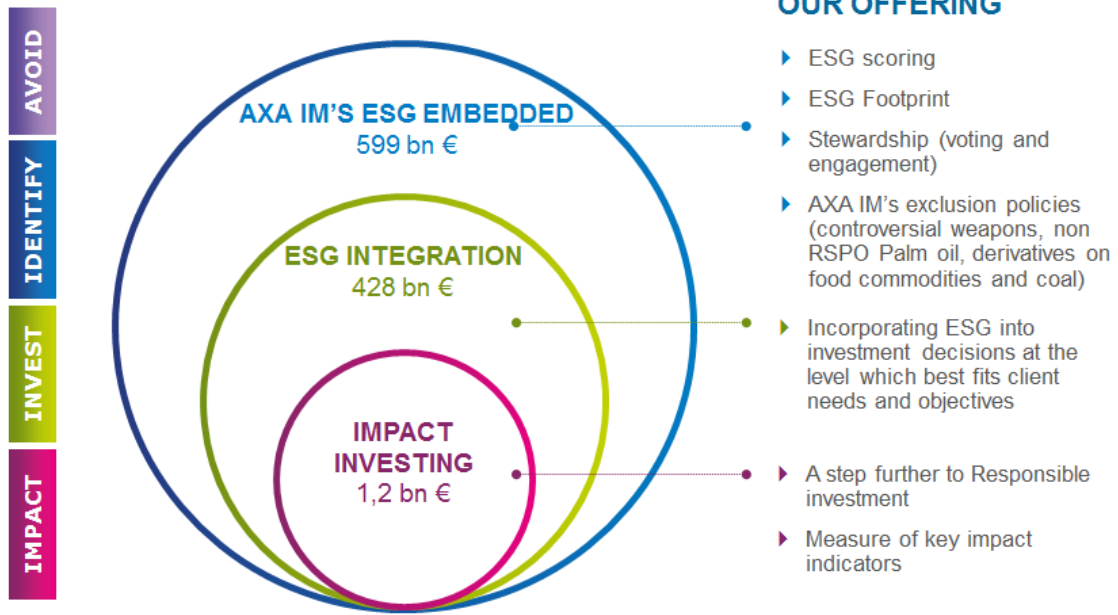
One of the successes of this process of incorporating ESG into AXA IM is reflected in the recent decision for Rosenberg, our quantitative management platform, to systematically incorporate ESG criteria into the modelling for all its portfolios.

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<sup>8</sup> A fund seeking to replicate a benchmark index as closely as possible

<sup>9</sup> Structured funds are an alternative investment vehicle that is both high-return and original, in comparison with traditional securities.

<sup>10</sup> A joint venture is an agreement between two or more companies that agree to jointly pursue a specific goal for a limited period.



Source: AXA IM on 31/12/2017

## 8. Climate focus

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### a) Systematic measurement of carbon footprint and contribution to energy transition for all funds

With COP 21 and the recent regulatory developments in France and worldwide, we have decided to [bring forward our commitments on climate issues](#) so that they are explicit in our decision-making.

For all our funds, we have the ability to detail the [CO<sub>2</sub> emissions associated with investments held in a portfolio](#), and the [portfolio's contribution to activities that support the energy transition](#): in particular, the [proportion of fixed-income portfolios invested in green bonds](#).

AXA IM has put in place a robust process for analysing green bonds and encourages management platforms to make use of that instrument.

Since they have the same yield and risk characteristics as other debt securities, managers are increasingly inclined to choose green bonds. The Responsible Investment team analyses all green bond issues to estimate the environmental benefits of these projects and check whether the issuer's strategy is in line with a low-carbon economy.

Beyond green bonds, we encourage investment in companies that offer solutions through products or services in line with the energy transition.

### b) Towards enhanced climate-risk mitigation

On climate risk more specifically, we evaluate our investments' profile against climate change, but also

against regulatory and technological developments, which have picked up pace since COP 21, starting with the most at-risk sectors (electricity, fossil fuel-extraction companies and the transport sector). Other risks exist, not least those relating to changing water resources and weather patterns. Some companies could also actually be exposed to physical risks. Rising sea levels, drought, melting ice caps, rainfall and other problems are having a devastating effect, particularly for companies located in regions highly exposed to these physical risks. We are currently putting in place a climate-risk policy. These analyses are reflected in the ESG convictions that our Responsible Investment team regularly shares with our management teams. Management teams are being trained up to eventually conduct these analyses themselves. They enable us to identify the best investment opportunities and riskiest assets.

Lastly, we maintain an active dialogue with companies and regulators. Over the course of 2016, we stepped up our engagement activities relating to, among other things, alleviating climate change. As a very large-scale investor we are convinced that we have a leading role to play in our industry in order to limit global warming to a 2°C scenario. In particular, we believe that the systemic nature of climate change requires investors to aggregate collective influence to bring about necessary change. We continue to review our engagement strategy on this issue and are currently considering additional engagement objectives relating to climate change.

Accordingly, we play an active part in a number of groups of investors, such as the Institutional Investors Group on Climate Change (IIGCC), the Carbon Disclosure Project (CDP) and the Principles for Responsible Investment (PRI), to question companies on their activities and their degree of preparedness for climate change.

## 9. Means of communication

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AXA IM attaches great importance to communicating with its clients in the most transparent and exhaustive way possible, to give them a complete analysis of responsible investment and help them understand it. All the main financial and non-financial information on ESG funds is available from <https://www.axa-im.com/en/responsible-investing> in accordance with the regulations governing UCIs and Article 173 of the Energy Transition for Green Growth Act.

We make the ESG scores for our portfolios available to our clients on an ad hoc basis (if our model's hedge ratio is sufficient), along with the ESG key performance indicators, such as carbon footprint.

### At asset-management company level

The following content is available on the website (<https://www.axa-im.com/en/responsible-investing>):

- Annual PRI report
- Annual RI report, including the voting and engagement report
- AXA IM's RI policy
- AXA IM's voting policy
- AXA IM's ruled-out sectors policy
- AXA IM's carbon footprint (annual report)

### At RI UCI level

The following content is available on the website (<https://www.axa-im.com/en/fund-centre>):

- French Fund Management Association (AFGF) Code of Transparency
- Legal documentation (prospectus, KIID)
- Annually: Article 173 report (ESG score, carbon footprint, contribution to green transition)
- Monthly: portfolio manager's remarks, integrated reporting within B-to-B and B-to-C
- Six-monthly: non-financial reporting and statement of investments with line-by-line ESG scores, legal report

### At other UCIs level

- ESG reporting on demand

The list of UCIs that take account of ESG criteria is appended.

### Focus on Article 173 reporting

In line with Article 173, we have made ESG reporting available to our clients for all funds sold in France, which enables clients to have additional information on their portfolio's ESG performance, to discover the ESG issues for the main positions in their portfolio and to assess the changes to ESG indicators. We have also enhanced our reporting, with a climate section that details the CO<sub>2</sub> emissions associated with investments held in a portfolio, and the portfolio's contribution to activities that support the energy transition. A study is currently being conducted to bolster this section with an estimate of climate and transition risks. Identification of the most exposed companies will enable a dialogue between issuers and clients as regards the possibility of pivoting towards a lower-carbon economy.

We have also put in place systematic training of platforms on ESG-issue analysis, enabling them to incorporate those issues into their technical analysis.

Once or twice a year, we also hold a training session for all AXA IM employees on ESG actions and initiatives. These sessions give us an opportunity to present the ESG team, our methodology, our voting policy, the latest responsible investment trends, etc.

All front office functions are trained on the features of RI Search© and on the tool's new applications. In addition, AXA IM has implemented a number of initiatives around its Corporate Social Responsibility policy, which is promoted to employees:

- Active support to local communities through AXA Hearts in Action, a programme that enables our employees to engage in community initiatives with financial and logistical support from AXA IM.
- A discussion of the theme of "diversity and inclusion" since 2012, with all our employees.

## 10. Identification and description of ESG risks, including those relating to climate change

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By means of our investment policy, we have identified the most significant ESG risks from a reputational and regulatory point of view, and those most likely to have a long-term impact on financial performance.

This policy identifies a list of controversial activities, drawing on fundamental principles, such as the Global Compact, the OECD Guidelines, International Labour Organisation (ILO) conventions, and other international principles and conventions that guide companies' activities in the field of sustainable development and social responsibility.

The ruling-out of these controversial activities forms part of our minimum ESG standards and all our investments (except for index funds, structured funds and AUM managed as a joint venture) are subject to this RI policy. Inclusion of companies not in compliance with this RI policy is ruled out.

On climate risk more specifically, we evaluate our investments' profile against climate change, but also against regulatory and technological developments,

which have picked up pace since COP 21, starting with the most at-risk sectors (electricity companies, fossil fuel-extraction companies and the transport sector), as well as other risks, not least those relating to changing water resources and weather patterns.

Specifically in relation to RI funds for which the sphere of investment is defined as per an RI process intended to retain only the companies that are the best value for money in their sector; the second check, after management, is conducted by an internal AXA IM service (Investment Guidelines). Pre- and post-trade constraints, which prohibit investments in issuers who are ineligible for SRI reasons, are implemented using an internal tool called Sentinel. The lists of eligible issuers are encoded into our tool. If an alert appears (positions outside the eligible sphere of investment), the RI team is informed by email, so that it can confirm whether or not there has been a breach. If a breach has indeed occurred, the manager is notified and must sell the securities within one month. The fund's process has been audited by Deloitte since 2010.

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