



## **AXA IM Policy for AXA IM Towards Sustainability Quality Standard funds**

The document presents AXA IM's interpretation of the Revised Towards Sustainability Quality Standard guidelines<sup>1</sup>.

AXA IM aims to offer sustainable funds to its clients complying with the highest Responsible Investment standards. Labels certifies and guarantees the quality of our sustainable funds and enables clients to ensure that they do not finance unsustainable activities.

These rules are applied to our AXA IM funds which have been awarded the Towards Sustainability Label.

Restrictions required by the Towards Sustainability Quality Standard are applied in addition to our internal AXA IM RI exclusion policies:

- We monitor systematically and exclude strong ESG risks through the application of our policies on controversial weapons, ecosystem protection & deforestation, soft commodities and climate risks, for all assets under management.
- For ESG integrated and ACT funds, we apply an additional screening with the AXA IM ESG Standards focused on tobacco producers, white phosphorus weapons producers as well as on companies exposed to severe controversies and that violate international norms and standards. We also monitor with attention low ESG scores, those with an ESG Score below 1.43 out of 10. Furthermore, we exclude countries where the worst forms of human right violations are observed. Those policies are available on our [website](#) and are complemented by the rest of our Responsible Investment policies, which cover notably voting and engagement activities.

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<sup>1</sup> "Technical Document – Revised Towards Sustainability Quality Standard" version of the 31 May 2021 and updated in September 2022, available here: <https://towardsustainability.be/the-label/quality-standard>

## 1. Exclusion strategy

### a. Exclusion criteria applicable to activities excluded by the Towards Sustainability Quality Standard<sup>2</sup> - Corporates

Activity	Criteria	Threshold 2021	Provider used
<b>Weapons</b>	Max % revenue from illegal & controversial weapons <sup>3</sup>	0	ISS Ethix
	Max % revenue from the production of (other) weapons or tailor-made components thereof	5	Sustainalytics
<b>Tobacco<sup>3</sup></b>	Max % revenue from tobacco production & trading, dedicated equipment, or services	5	Sustainalytics
	Max % revenues from thermal coal-related activities	5	Trucost
<b>Coal</b>	<b>OR,</b> Companies that do not have a SBTi target set at well-below 2°C or 1.5°C or have a SBTi' Business Ambition for 1.5°C' commitment	NA	SBTi database <sup>4</sup>
	<b>AND,</b> Companies that increase their absolute production of or capacity for thermal coal-related products/services	NA	Trucost
<b>Unconventional oil &amp; gas supply</b>	Max % revenues from unconventional oil & gas-related activities	5	Sustainalytics
	<b>OR,</b> Companies that do not have a SBTi target set at well-below 2°C or 1.5°C or have a SBTi' Business Ambition for 1.5°C' commitment	NA	SBTi database <sup>4</sup>
	<b>AND,</b> Companies that increase their absolute production of or capacity for unconventional oil & gas-related products/services	NA	Urgewald
<b>Conventional oil &amp; gas</b>	Max % revenue based on oil & gas-related activities	5%	Trucost
	<b>OR,</b> Companies that do not have a SBTi target set at well-below 2°C or 1.5°C or have a SBTi' Business Ambition for 1.5°C' commitment	NA	SBTi database <sup>5</sup>

<sup>2</sup> "Technical Document – Revised Towards Sustainability Quality Standard" version of the 31 May 2021 and updated in September 2022, available here: <https://towardsustainability.be/the-label/quality-standard>

<sup>3</sup> AXA IM exclusion policies have similar or stricter thresholds than the Towards Sustainability Quality Standard

<sup>4</sup> Companies Taking Action, Science Based Targets, available here: <https://sciencebasedtargets.org/companies-taking-action>

<sup>5</sup> Companies Taking Action, Science Based Targets, available here: <https://sciencebasedtargets.org/companies-taking-action>

		Min % revenue derived from contributing activities	50%	Trucost
	<b>OR,</b>	Companies that do not have a SBTi target set at well-below 2°C or 1.5°C or have a SBTi' Business Ambition for 1.5°C' commitment	NA	SBTi database <sup>5</sup>
<b>Power Generation</b>	<b>AND,</b>	Companies that structurally increase their absolute production of or capacity for coal-based or nuclear-based energy-related products/services	NA	Trucost
	<b>AND,</b>	Companies that increase their absolute production of or capacity for contributing products/services	NA	Trucost
		<b>Grandfathering for electric utilities</b> Electricity utilities with a carbon intensity lower <b>354 gCO2/kWh</b> and that are not structurally increasing coal- or nuclear-based power generation capacity, are eligible		Trucost
<b>Normative<sup>6</sup> screening</b>		The manager shall have in place procedures to monitor the alignment of investee companies with: <ul style="list-style-type: none"> <li>○ The UN Global compact</li> <li>○ The UN Guiding Principles on Business and Human Rights (UNGPs)</li> <li>○ The OECD Guidelines for Multinational Enterprises (as far as relevant)</li> <li>○ The ILO Conventions</li> </ul>	NA	Sustainalytics

**To be noted:**

- AXA IM already excludes controversial weapons as part of its RI top-level policies with similar criteria than Towards Sustainability QS ([AXA IM controversial weapons policy](#)). As such, these criteria are not included in the Towards Sustainability QS ban-list to avoid duplication of information.
- Similarly, Violations of International norms and standards are covered by AXA IM ESG standards and not included in the Towards Sustainability QS specific ban-list ([AXA IM ESG standards policy](#)). As part of our policy, we also exclude Tobacco producers.

- **Approach in place for Use-of-proceed**

The Technical Quality Standard proposes a specific approach for Use-of-proceeds instruments, which is detailed in the section on Use-of-Proceeds instruments Bonds of the document (4.3, pages 32), as follows.

Use-of-proceeds instruments shall meet the following criteria:

<sup>6</sup> AXA IM exclusion policies have similar or stricter thresholds than the Towards Sustainability Quality Standard

*a) Use-of-proceeds instruments shall comply with an appropriate framework (e.g. ICMA/CBI/EU GBS/LMA) and be subject to independent external review. For some specific issuers, supranational institutions and agencies, this might not be possible. In that case, elaborate on equivalence (see c.).*

*b) Issuers and beneficiaries of use-of-proceeds instruments shall be subject to the ESG due diligence process of the product manager. The environmental, social and governance aspects of the financed programs/projects shall be taken into account when investing in use-of-proceeds instruments. c) The evaluation of use-of-proceeds instruments issued by financial institutions, governments and supra-nationals is left to the discretion of the product manager. Use-of-proceeds instruments issued by companies that fail the business criteria (c) of 3.4-3.7, can be eligible.*

These business criteria relate to Coal, Unconventional oil & gas, Conventional oil & gas and Power Generation sector policies of the Technical version of the Quality Standard<sup>7</sup>.

- **Phase-out**

As specified in the Technical version of the Quality Standard (3.1.d, page 21)<sup>7</sup>:

*Some companies are currently not yet aligned with the business criteria in c) but are nevertheless within the best of their peer group in transitioning their business model. A sustainable financial product can finance these companies selectively and to a limited extent. However:*

- *The total portfolio exposure to non-compliant companies (only concerning eligible activities) is < 5%. This margin will decrease by 1pp (percentage point) per year as of 1/1/2023.*
- *Additionally, companies in this margin shall be subject to a best-in-class selection that selects from the 25% highest ESG-rated companies (leaders), with special attention to sustainable energy transition.*
- *Companies in this margin shall still meet the governance criteria b).*

Eligible activities are Conventional oil & gas (3.6) and Power generation (3.7).

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<sup>7</sup> "Technical Document – Revised Towards Sustainability Quality Standard" version of the 31 May 2021 and updated in September 2022, available here: <https://towardsustainability.be/the-label/quality-standard>

**b. Exclusion criteria applicable to countries excluded by the Towards Sustainability Quality Standard<sup>8</sup>**

Instrument	Criteria	Threshold 2021	Provider used
Sovereign bonds	<b>States that have not ratified or have not implemented in equivalent national legislation:</b>		
	The eight fundamental conventions identified in the International Labour Organisation's declaration on Fundamental Rights and Principles at Work	NA	ILO
	At least half of the 18 core International Human Rights Treaties	NA	OHCHR
	<b>States which are not party to:</b>		
	The Paris Agreement	NA	UNTC for Paris Agreement
	The UN Convention on Biological Diversity	NA	CBD for biodiversity
	The Nuclear Non-Proliferation Treaty	NA	UNODA
	States with particularly high military budgets (>4% GDP)	4	World Bank
	States considered 'Jurisdictions with strategic AML/CFT deficiencies' by the FATF	NA	FATF
	States with less than 40/100 on the Transparency International Corruption Perception Index	40	Transparency International
	States qualified as 'Not free' by the Freedom House 'Freedom in the World'-survey	NA	Freedom House

## 2. Implementation

Where exclusions required by the Towards Sustainability Quality Standard overlap with our AXA IM RI exclusion policies, the strictest rule applies.

The Policy is implemented, taking into account local regulation and both the client's as well as the fund's best interests, with a transition period following the 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 at their discretion within this transition period taking into account the portfolio impacts based on market conditions, liquidity and portfolio construction constraints. The transition period should not exceed three months.

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.

<sup>8</sup> "Technical Document – Revised Towards Sustainability Quality Standard" version of the 31 May 2021 and updated in September 2022, available here: <https://towardsustainability.be/the-label/quality-standard>

### 3. AXA IM's approach to other material ESG issues

AXA IM is addressing other ESG material issues through stewardship activities, as well as through its ESG scoring framework which is used by portfolio managers to make investment decisions.

Activity	AXA IM
<b>Biodiversity</b>	<p>In June 2021, we extended our existing Palm Oil policy with a more comprehensive approach to <a href="#">Ecosystem Protection &amp; Deforestation</a>. In addition to exclude companies involved in unsustainable palm oil production, including land rights conflicts and illegal logging issues, we now ban companies which face significant land use controversies and are responsible for biodiversity loss in relation to soy, cattle and timber. We also reinforced our engagement approach with companies involved in those issues, to help change and improve practices. Our engagement approach is described in the Ecosystem Protection &amp; Deforestation policy and annual updates of its implementation is provided in our <a href="#">Annual Active Ownership and Stewardship Report</a>.</p>
<b>Water use</b>	<p>As part of our biodiversity engagement programme, we engage with companies on water use issues.</p> <p>In addition, we include water related KPIs in our AXA IM ESG scoring framework. Regarding countries, AXA IM ESG Sovereign scoring model gives a large part to environmental issues (1/3). We do consider Natural resources use and pollution, as a sub-factor of the environmental pillar. The hydric stress is a major indicator for water use, integrated in our model.</p>
<b>Pollution &amp; Waste</b>	<p>As part of our engagement strategy, we discuss with companies on pollution and waste issues.</p> <p>Raw data on pollution and waste are integrated in our AXA IM's Scoring methodology on Corporate and Sovereign.</p> <p>For Corporate, we rely on waste and pollution key performance indicators from MSCI, focusing on electronic waste, packing materials and waste, toxic emissions and waste. The weight of these indicators depends on their materiality for each sector.</p> <p>For Sovereign, regarding pollution, we chose to consider policies on waste as well as the concentration of various pollutants in the air, which represents a risk for the environment and for people's health. We use 3 indicators which assess waste management, recycled waste and air pollution.</p>
<b>Gender &amp; Diversity</b>	<p>Diversity is one of our key themes of our active ownership strategy. Besides our own gender-related engagement programme in various markets, AXA IM launched the 30% Club France Investor Group. The objective is to improve women's representation in senior executive teams in the French market.</p> <p>To improve governance standards, we reinforced our Voting policy by introducing a new target related to diversity. Since 2021, AXA IM targets listed companies in developed market economies where at least one-third of the Board of Directors is not gender diverse. AXA IM has and will continue to push all companies, in both developed and emerging markets, to disclose and report against their executive committee gender diversity policy and targets.</p> <p>Annual updates on our stewardship activities on gender diversity are provided in our <a href="#">Annual Active Ownership and Stewardship Report</a>.</p>
<b>Taxation</b>	<p>AXA IM has developed its own model to identify highly reputation risky countries. The objective is to limit the reputational or headline risk in order to avoid negative perceptions associated with the financing of countries which are strongly in violation</p>

	<p>of human rights and show clear governance dysfunctions such as promoting corruption or criminal fraud, money laundering or tax havens.</p> <p>In its ESG Scoring Government methodology, relying on MSCI ESG scores, the Governance pillar includes a review of non-cooperative tax jurisdiction</p>
<b>Oppressive regimes (government and company level)</b>	<p>AXA IM applies a ban on some countries submitted to international sanctions. On top of this ban, its ESG Integrated and ACT funds (incl. funds awarded with the Towards Sustainability funds) apply the AXA IM ESG Standards</p> <p>Civil liberties on <a href="#">AXA IM ESG Standards</a> prohibiting investments in countries with severe human right violations. Our screen focuses on civil liberties and child labor.</p>
<b>Death penalty</b>	<p>AXA IM wants to promote countries that respect human rights and civil liberties.</p> <p>In its ESG Scoring Government methodology, relying on MSCI ESG scores, the Governance pillar includes an analysis of political rights and civil liberties to assess among others the natural justice and the level of freedom, which uses external NGOs data such as Freedom House and WGI. As for the specific case of the legacy of death penalty, MSCI's ESG reviews it under the Social Pillar.</p> <p>This model is used by Fixed Income Portfolio Manager to assess the situation of each country in the quarterly country review process.</p>
<b>Forward contracts on agricultural commodities</b>	<p>Since 2015, AXA IM has implemented a <a href="#">policy</a> to exclude from its investments derivatives on soft commodities, including ETF.</p>



## Appendix

Theme	ESG Issues	Source	Link
Environmental Criteria	Coal and Unconventional oil & gas	<input checked="" type="checkbox"/> Towards sustainability <input checked="" type="checkbox"/> AXA IM	<a href="#">Quality Standard</a> and AXA IM <a href="#">Climate Risks Policy</a>
	Conventional oil & gas	<input checked="" type="checkbox"/> Towards sustainability <input type="checkbox"/> AXA IM	<a href="#">Quality Standard</a>
	Power Generation	<input checked="" type="checkbox"/> Towards sustainability <input checked="" type="checkbox"/> AXA IM	<a href="#">Quality Standard</a> AXA IM <a href="#">Climate Risks Policy</a>
	Nuclear energy	<input checked="" type="checkbox"/> Towards sustainability <input type="checkbox"/> AXA IM	<a href="#">Quality Standard</a>
	Biodiversity	<input checked="" type="checkbox"/> Towards sustainability <input checked="" type="checkbox"/> AXA IM	<a href="#">Quality Standard</a> and <a href="#">AXA IM Ecosystem Protection &amp; Deforestation policy</a>
	Water use	<input checked="" type="checkbox"/> Towards sustainability <input type="checkbox"/> AXA IM	<a href="#">Quality Standard</a>
	Pollution & waste	<input checked="" type="checkbox"/> Towards sustainability <input type="checkbox"/> AXA IM	<a href="#">Quality Standard</a>
Social Criteria	Controversial Weapons	<input checked="" type="checkbox"/> Towards sustainability <input checked="" type="checkbox"/> AXA IM	<a href="#">Quality Standard</a> and <a href="#">AXA IM Controversial Weapons policy</a>
	Other weapons	<input checked="" type="checkbox"/> Towards sustainability <input checked="" type="checkbox"/> AXA IM	<a href="#">Quality Standard</a> and <a href="#">AXA IM ESG Standards</a>
	Tobacco	<input checked="" type="checkbox"/> Towards sustainability <input checked="" type="checkbox"/> AXA IM	<a href="#">Quality Standard</a> and <a href="#">AXA IM ESG Standards</a>
	International norms & standards	<input checked="" type="checkbox"/> Towards sustainability <input checked="" type="checkbox"/> AXA IM	<a href="#">Quality Standard</a> and <a href="#">AXA IM ESG Standards</a>
	Derivatives on Soft Commodities	<input checked="" type="checkbox"/> Towards sustainability	<a href="#">Quality Standard</a> and <a href="#">AXA IM Soft commodities policy</a>

		<input checked="" type="checkbox"/> AXA IM	
	Gender & Diversity	<input checked="" type="checkbox"/> Towards sustainability <input type="checkbox"/> AXA IM	<a href="#">Quality Standard</a>
	Taxation	<input checked="" type="checkbox"/> Towards sustainability <input type="checkbox"/> AXA IM	<a href="#">Quality Standard</a>
<b>Governance Criteria</b>	Oppressive regimes	<input checked="" type="checkbox"/> Towards sustainability <input checked="" type="checkbox"/> AXA IM	<a href="#">Quality Standard</a>
	Death penalty	<input checked="" type="checkbox"/> Towards sustainability <input type="checkbox"/> AXA IM	<a href="#">Quality Standard</a>
<b>ESG exclusions</b>	ESG Scores < 1.43	<input type="checkbox"/> Towards sustainability	<a href="#">AXA IM ESG Standards</a>
	Severe Controversies Countries with severe human rights violations	<input checked="" type="checkbox"/> AXA IM	