



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 guidelines¹.

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, climate risks and tobacco, for most of the assets under management².
- For most of the ESG integrated, Sustainable and Impact open-ended funds, we apply an additional screening with the AXA IM ESG Standards focused on 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.

¹ "Towards Sustainability Quality Standard" version of 2023 available here: [Quality Standard | Towards Sustainability](#)

² Funds not in scope of the policy are mentioned in the "implementation" section of each policy

1. EXCLUSION STRATEGY

a. Exclusion criteria applicable to activities excluded by the Towards Sustainability Quality Standard³ - Corporates

Activity	Criteria	Threshold	Provider used
		2023	
Weapons	Max % revenue from illegal & controversial weapons ⁴	0	ISS Ethix
	Max % revenue from weapons-related activities: - the manufacture of (other) weapons or tailor-made components thereof - sale of weapons	5	Sustainalytics
	Max % revenue from bespoke products, equipment or services dedicated to enabling the execution of weapons-related activities	25	ISS Ethix Sustainalytics
Tobacco	Max % revenue from tobacco-related activities: - tobacco production, tobacco products or e-cigarettes ³ - wholesale trading of tobacco products or e-cigarettes	5	Sustainalytics
	Max % revenue from bespoke products, equipment or services dedicated to enabling the execution of tobacco-related activities	25	Sustainalytics
Coal³	Max % revenues from thermal coal-related activities: - Thermal coal prospecting or exploration - Extraction/mining of thermal coal - Processing of thermal coal - Transportation of thermal coal And max 10% Mt of thermal coal production	5 (10% for transportation)	Trucost Urgewald

³ "Towards Sustainability Quality Standard" version of 2023, available here: [Quality Standard | Towards Sustainability](#)

⁴ AXA IM exclusion policies have similar or stricter thresholds than the Towards Sustainability Quality Standard

	OR,	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 ⁵
	AND,	Companies that increase their absolute production of or capacity for thermal coal-related activities	NA	Trucost
	AND,	Companies that are involved in coal exploration, exploitation or development of new coal mines		Urgewald
		Max % revenue from bespoke products, equipment or services dedicated to enabling the execution of coal-related activities	25	Sustainalytics
		Max % revenues from unconventional oil & gas-related activities: - Unconventional oil and gas prospecting or exploration - Extraction of unconventional oil and gas	5	Sustainalytics
	OR,	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 ⁴
Unconventional oil & gas supply³	OR,	Max % of unconventional oil and gas production on the total oil and gas production	5	Urgewald
	AND,	Companies that increase their absolute production of or capacity for unconventional oil & gas-related activities	NA	Urgevald
	AND	Companies that are involved in exploration, exploitation or development of new unconventional oil or gas fields	NA	Urgewald
		Max % revenue from bespoke products, equipment or services dedicated to enabling the	25	Sustainalytics

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

		execution of unconventional oil and gas-related activities		
Conventional oil & gas		Max % revenue based on oil & gas-related activities: - Oil or gas prospecting or exploration - Extraction of oil or gas - Processing or refining or oil or gas (except oil to chemicals) - Transportation of oil (not distribution)	5	Trucost
	OR,	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 ⁶
	OR,	Companies that have emission intensity not aligned with 1.5°C target	>55,75gCO ₂ e/ MJ	TPI database ⁷
	AND,	Companies involved in exploration, exploitation or development of new oil or gas fields	NA	Urgewald
		Max % revenue from bespoke products, equipment or services dedicated to enabling the execution of conventional oil and gas-related activities	25	Sustainalytics
Power Generation		Min % revenue derived from contributing activities ⁸	50	Trucost
	OR,	Max % revenues from generation of power or heat from non-renewable energy sources	5	Trucost
	OR,	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 ⁵

⁶ Companies Taking Action, Science Based Targets, available here: <https://sciencebasedtargets.org/companies-taking-action>

⁷ Carbon performance of publicly listed companies, available here: <https://www.transitionpathwayinitiative.org/>

⁸ To identify contributing activities we rely on renewable energy including biomass power generation, geothermal power generation, hydroelectric power generation, solar power generation, wave generation and wind power generation.

	OR, Companies that have a carbon intensity not aligned with 1.5°C target	>0,348tCO ₂ e/ MWh	Bloomberg
	AND, Companies that are involved in building new-coal fired power stations	NA	Urgewald
	AND, Companies that structurally increase their absolute production of or capacity for coal-based power and is above 5GW	NA	Trucost Urgewald
	Grandfathering for electric utilities Electricity utilities with a carbon intensity lower 335 gCO₂/kWh and that are not structurally increasing coal- or nuclear-based power generation capacity, are eligible		Trucost
Normative⁹ screening	The manager shall have in place procedures to monitor the alignment of investee companies with: <ul style="list-style-type: none"> ○ The UN Global compact ○ The UN Guiding Principles on Business and Human Rights (UNGPs) ○ The OECD Guidelines for Multinational Enterprises (as far as relevant) ○ The ILO Conventions 	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.
- AXA IM Climate Risks policy already cover development of new coal mines as well as the development of new coal assets
- As part of our AXA IM Tobacco policy, we already exclude all tobacco producers (>0% revenues).
- 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](#)).

⁹ AXA IM exclusion policies have similar or stricter thresholds than the Towards Sustainability Quality Standard

- **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:

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 as long as the governance criterium (b) i) is met and particular attention is given in the ESG due diligence process to these companies' overall transition efforts

These business criteria relate to Coal, Unconventional oil & gas, Conventional oil & gas and Power Generation sector policies of the Technical version of the Quality Standard¹⁰.

- **Phase-out**

As specified in the Technical version of the Quality Standard (3.7.d, page 49⁷):

Some companies performing activities under a) currently do not yet meet the transition-related eligibility criteria in b) iii. 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, under the following conditions:

- *The total portfolio exposure to non-compliant companies 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.*

¹⁰ "Towards Sustainability u" version of the 30 June 2023, available here: <https://www.towardsustainability.be/en/quality-standard>

- Companies in this margin shall still meet the governance and non-expansion eligibility criteria in b) i & ii.

Portfolios using the phase-out margin, shall reduce it to 0% by 30/6/2025 To comply with this criteria, AXA IM relies on MSCI data to identify companies involved in sustainable energy transition.

b. Exclusion criteria applicable to countries excluded by the Towards Sustainability Quality Standard¹¹

Instrument	Criteria	Threshold	Provider used
		2023	
All Sovereign Bonds	The strength of the governance of a State is measured using the 6 Worldwide Governance Indicators (WGI), established by the World Bank: <ol style="list-style-type: none"> 1. Voice and Accountability 2. Political Stability and Absence of Violence/Terrorism 3. Government Effectiveness 4. Regulatory Quality 5. Rule of Law 6. Control of Corruption 		
	Min average score on all 6 WGIs	-0.59	World Bank
	Min score on a single WGI	-1.00	World Bank
Sovereign bonds High Income countries only	States that have not ratified or have not implemented in equivalent national legislation:		
	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
	States which are not party to:		
	The Paris Agreement	NA	UNTC for Paris Agreement

¹¹ "Towards Sustainability u" version of the 30 June 2023, available here: <https://www.towardsustainability.be/en/quality-standard>

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
State does not have the death penalty legal and in use	NA	

AXA IM relies on the list shared by the CLA to perform screening on Sovereign instruments.

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.

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 AXA IM Q² ESG scoring framework which is used by portfolio managers to make investment decisions.

Activity	AXA IM
----------	--------

Biodiversity	<p>In June 2021, we extended our existing Palm Oil policy with a more comprehensive approach to Ecosystem Protection & Deforestation. 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.</p> <p>In 2023, our greatest efforts focused on companies implicated in the agrifood value chain – predominantly the food products sector but also consumer staples distribution and retail – as well as the chemical industry. The food and chemical industry figure among the top three industries with the highest potential negative biodiversity impact according to a recent multi-tool study. We engage, as a shareholder, individually where needed, and via coalitions wherever possible.</p> <p>On deforestation specifically, the global goal of our engagement activities is to accompany issuers identified as exposed to deforestation risks in setting up clear zero deforestation and natural ecosystems conversion-free goals by 2025 supported by concrete and effective actions.</p>
Water use	<p>As part of our biodiversity engagement programme, we engage with companies on water use issues, as well as water pollution and water quality. For example, we have identified that within the agri-food sector, the high level of animal waste produced by industrial farming annually can lead to nutrient and water pollution, posing significant risks to ecosystems.</p> <p>For its Q² proprietary scoring methodology, AXA IM mainly rely on MSCI ESG Scores within which Water Stress is identified as a Key Issue under the Natural Capital pillar.</p>
Pollution & Waste	<p>At AXA IM, we conduct research and stewardship activities in a number of ESG issues including pollution and waste.</p> <p>In 2022, AXA IM joined FAIRR collaborative engagement on biodiversity, focused on waste and pollution. aims to drive pork and poultry producers to conduct meaningful risk assessments around animal waste and put in place action plans to reduce their corresponding impact on biodiversity. We participated in several company engagements in 2023. We also joined the Investor Initiative on Hazardous Chemicals supported by ChemSec with the objective to engage with companies on the management of hazardous substances.</p> <p>For its Q² proprietary scoring methodology, AXA IM mainly rely on MSCI ESG Scores. For Corporate, waste and pollution key performance indicators from MSCI is 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>
Gender & Diversity	<p>We believe gender diversity is a key factor in achieving and maintaining a healthy and efficient working environment. We believe it can boost the emergence of talent, the generation of innovative ideas and business</p>

	<p>performance overall. This means that appropriate gender representation could potentially drive better corporate performance for companies, as well as shareholders, and encourage to improved leadership and governance. To progress on this target, we rely on our voting and engagement activities.</p> <ul style="list-style-type: none"> - Since AXA IM target 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. - In 2022, we have continued to reinforce our engagement activities around gender diversity, partnering with our industry peers to push for progress. In line with our ambitions and the objective of increasing collaboration we helped create the 30% Club France Investor Group, calling other asset managers to join us while encouraging large French companies to commit to promoting gender diversity at a senior level. - In 2023 we pursued engagement activities with French and Asian companies. <p>The goal is for companies to appoint women to at least 30% of executive committee seats by 2025, compared to just 21% in 2020. Since its launch we have continued to collaborate as part of the group as an active member. In 2022, AXA IM Japan joined the 30% Club Japan Investor Group aiming to work collectively with other investors to accompany Japanese companies in integrating the diversity and gender equality matter within their strategies</p>
Taxation	<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 of human rights and show clear governance dysfunctions such as promoting corruption or criminal fraud, money laundering or tax havens.</p>
Oppressive regimes (government and company level)	<p>AXA IM applies a ban on some countries submitted to international sanctions.</p> <p>In addition, 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 of human rights and show clear governance dysfunctions such as promoting corruption or criminal fraud, money laundering or tax havens.</p>
Death penalty	<p>AXA IM wants to promote countries that respect human rights and civil liberties. AXA IM's Q² ESG Scoring methodology on sovereign relying on MSCI ESG Score includes key issues on stability and peace, corruption control, political rights and civil liberties.</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>
Forward contracts on agricultural commodities	<p>Since 2015, AXA IM has implemented a Soft Commodities policy to exclude from its investments derivatives on soft commodities, including ETF.</p>

APPENDIX

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

		<input checked="" type="checkbox"/> AXA IM	
	Derivatives on Soft Commodities	<input checked="" type="checkbox"/> Towards sustainability <input checked="" type="checkbox"/> AXA IM	Quality Standard and AXA IM Soft commodities policy
	Gender & Diversity	<input checked="" type="checkbox"/> Towards sustainability <input type="checkbox"/> AXA IM	Quality Standard
	Taxation	<input checked="" type="checkbox"/> Towards sustainability <input type="checkbox"/> AXA IM	Quality Standard
Governance exclusions	Oppressive regimes	<input checked="" type="checkbox"/> Towards sustainability <input checked="" type="checkbox"/> AXA IM	Quality Standard
	Death penalty	<input checked="" type="checkbox"/> Towards sustainability <input type="checkbox"/> AXA IM	Quality Standard
ESG exclusions	ESG Scores < 1.43 Severe Controversies Countries with severe human rights violations	<input type="checkbox"/> Towards sustainability <input checked="" type="checkbox"/> AXA IM	AXA IM ESG Standards

4. APPROACH TO DERIVATIVES

AXA IM complies with the 2023 Quality Standard with regards to the use of derivatives instruments.

The use of derivatives cannot be at odds with the sustainable character of the portfolio. This means that the potential (indirect) negative impact on sustainability factors of using/investing in derivatives shall be taken into account.

The manager shall disclose if derivatives are used to attain the ESG characteristics or the sustainable investment objectives of the portfolio, and if yes, how.

Derivatives that are solely used as a technical tool in the context of efficient portfolio management or for hedging purposes with regard to currency risk, duration risk, market risk or/and sensitivity to changes in interest rate structures can be excluded from ESG evaluation.

If used as a source of return, the issuer of the underlying assets shall be evaluated. When the underlying of the derivative is an index, the index shall be QS compliant (see 4.7). However, derivatives on the

portfolio's reference (sub)benchmark (or an equivalent broad market benchmark) are temporary allowed to a maximum of 10% of the portfolio.

Replacing a direct investment risk with a derivative investment in that risk does not take away the need for ESG due diligence of the direct investment. Derivates shall not be used to circumvent QS criteria applicable to direct exposures.

The manager is encouraged to perform ESG due diligence on the counterparties. Derivatives on agricultural commodities for speculative reasons are not allowed.

The manager shall describe the nature of the derivatives used, the average proportion of the portfolio concerned, the ESG analysis made of the underlying and counterparties (when applicable), the strategy (market hedging, liquidity management, additional performance, etc.) and whether the derivative has an effect on the ESG performance of the portfolio.