AXA Investment Managers

August 2024

2024 Putting ESG to work: Integration into platforms

“Our purpose is to act for human progress by investing for what matters. This report is our purpose in action and evidence of our commitment to transparency”

Marco Morelli,
AXA IM Executive Chairman

Putting ESG to work

AXA IM is a long-term, responsible investor with the aim of delivering sustainable returns for clients. Over time, our investment processes have evolved to reflect an ever-greater focus on non-financial factors. We believe by building a powerful understanding of the ESG risks to an investment, we can better target those sustainable returns while contributing to better outcomes for people and the planet.

We aim to achieve this goal via in-depth research, data analysis and the construction of portfolios which look to optimise both financial and non-financial factors. Our investment process reflects our core belief that a focus on sustainability can ultimately deliver the best economic and financial performance over the long term.

Our quantitative and qualitative ESG research is designed to help us better understand the materiality of ESG challenges for sectors, companies, and countries. This research feeds our integration and exclusion strategies by identifying where assets might be exposed to ESG risks that could have a detrimental and irreversible effect on the performance of our portfolios, as well as on long-term global sustainability. Our normative and sectorial exclusions, applied to the majority of our actively managed funds, set the red lines and send a clear message to companies and sovereigns on what we consider unacceptable from an ESG perspective. For assets where we remain exposed, we apply our voting and engagement strategies with the objective of supporting issuers in their transition journey.

In applying our stewardship strategy, for engagement with objectives, we aim to set out meaningful objectives which are clearly communicated to management. We then hold regular meetings to verify and evaluate progress and we vote with conviction or pursue other escalation techniques when required.

Our risk identification process

Our broad approach to sustainability risks

AXA IM uses an approach to sustainability risks derived from the integration of ESG criteria in our research and investment processes in accordance to their SFDR or equivalent classification. We have implemented a framework to integrate sustainability risks in investment decisions, which relies notably on:

- **Sectorial and normative exclusions** policies covering ESG factors to exclude assets exposed to the most severe sustainability risks identified during our investment decision-making process
  - Environmental: Climate (coal mining and coal-based energy production; oil sands production and oil sands-related pipelines; shale and tight oil and gas; arctic oil and gas); biodiversity (ecosystem protection and deforestation); and soft commodities (food commodities derivatives)
  - Social: Health (tobacco producers), labour, society and human rights (violations of international norms and standards);[35] controversial weapons manufacturing; white phosphorus weapons producers; exclusion of investments in securities issued by countries where serious violations of human rights are observed
  - Governance: Business ethics (severe controversies, violations of international norms and standards); corruption (severe controversies, violations of international norms and standards)
- **Proprietary ESG scoring methodologies:**
  - On listed assets, we apply ESG scoring methodologies for corporates, sovereigns and on green, social and sustainability bonds. We use an ESG scoring methodology called Q² (qualitative and quantitative) which relies primarily on index provider MSCI with some proprietary add-ons which constitute the value-added of AXA IM's ESG scoring capacity: coverage, fundamental analyses, and instrument-level differentiation;
  - Specific ESG scoring methodologies have been developed for real assets (direct real estate property, infrastructure debt & equity, commercial real estate (CRE) debt), as well on alternative credit and private debt scoring methodologies (i.e., leveraged loans, collateralised loan obligations (CLOs), asset-backed securities (ABS), insurance-linked securities (ILS), regulatory capital (RegCap), non-performing loans (NPL), our impact investments (in companies, projects and funds),

[35] UN's Global Compact Principles, International Labour Organization's (ILO) Conventions, OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights (UNGPs).

and non-listed private equity and debt through our subsidiary CAPZA);

- On funds of funds or funds of mandates managed by AXA IM Select[36], ESG scores are assigned at manager and fund level. Those ESG scores are the result of an ESG due diligence covering four areas: i) policy and governance ii) ESG integration iii) engagement and stewardship, and iv) risk and reporting;

- On funds of funds managed by AXA IM Prime, ESG scores are assessed at manager and fund level through proprietary ESG Due Diligence & Monitoring Questionnaires (DDMQ) assessing firm and fund responsibility for primary and co-investments for all AXA IM Prime verticals (i.e., private markets, including private equity, private debt, infrastructure, and hedge funds), as well as direct strategies (general partner level scoring). A tailored approach applies to secondaries investments.

  We believe this combination of external quantitative and internal qualitative ESG analysis helps us identify best-in-class companies – and laggards too. The use of ESG scores in the investment decision process should enable us to focus on assets with an overall better ESG performance and to seek to reduce sustainability risks.

This framework is complemented by:

- **In-house ESG research**[37] on key themes including climate change, biodiversity, gender diversity and human capital, responsible tech as well as on human rights and corporate governance, supported by broker research as well as regular meetings with companies, participation in conferences and industry events. We think this research helps us to better understand the materiality of these ESG challenges for sectors, companies and countries

- **Internal qualitative ESG and impact analysis** at company, country and instrument level. For impact-related investments, we have developed specific Impact Qualitative Analysis frameworks for listed equities and Green, Social and Sustainability Bonds

- **ESG KPIs:** Investment teams have access to a wide range of extra-financial data and analysis on ESG factors, across asset classes

- **Stewardship strategy:** We adopt an active and impactful approach to stewardship[38] (engagement and voting) by using our scale as a global investment manager to influence company and market practices. In doing so, we strive to reduce investment risk and enhance returns as well as driving positive impacts for our society and the environment. We believe these are key to achieving sustainable long-term value creation for our clients

Controls

The ESG and climate themes are covered by AXA IM's control framework, with responsibilities spread between the first level of controls performed by the business and second level of controls performed by dedicated teams.

ESG-related investment guidelines consist of our exclusion policies, as well as of eligibility criteria and rules specific to some funds, including those which have been awarded sustainability-related labels.[39] Monitoring is carried out as follows:

- The portfolio management teams are primarily responsible for the implementation of policies and commitments. Funds' specific RI objectives are reported in monthly Investment Oversight Forums. Following ban lists and/or eligible universe updates, portfolio managers divest from issuers taking into account the client's or the fund's best interest

- The investment guidelines team ensures independent and systematic pre- and post-trade controls on policies and fund-level commitments. This team monitors the correct application of the exclusion lists derived from top-level RI policies and ESG Standards, sustainability-related labels and other fund-specific commitments as mentioned in their regulatory documentation

- The compliance department carries out ad hoc controls on the work performed by the investment guidelines team, but also makes sure that RI internal processes are respected, and ensures compliance with regulatory requirements in AXA IM's RI strategy

- The risk management department assesses the likely impact of sustainability risks on the products' return and classifies them within three levels: Low, Medium and High[40]

- The audit department performs periodic controls. Audits are performed according to an annual risk-based audit plan, which is approved and monitored by our governance bodies, in particular the AXA IM Audit & Risk Committee. Higher risk areas and those required by regulations to be covered regularly are subject to audits on a more frequent basis compared to the less risky areas, which are covered over a longer cycle.

[36] Previously managed by Architas and assets from AXA Group's general accounts.
[37] Sustainability, AXA IM, retrieved February 2024
[38] Stewardship & Engagement, AXA IM, retrieved February 2024
[39] Such rules are described in the regulatory documentation of the products.
[40] Sustainable Finance, AXA IM, retrieved February 2024

Putting ESG to work

Identification of Risks

The Emerging Risk Management Framework aims to ensure the consistency of the process of identification, assessment, mitigation and management of the emerging risks faced by AXA IM.

Emerging risks are those which may develop in the future, or which already exist and are evolving. They are marked by a high degree of uncertainty, and some of them may even never emerge. Emerging risks can have potentially serious consequences if they are not anticipated in a timely manner.

Chief risk officers are responsible for early detection of risks. The objective of emerging risk management is to reinforce the anticipation and monitoring dimension of risk management.

The Emerging Risk Management Framework is designed to enhance AXA IM's understanding of these risks and allow us to adapt our business and processes accordingly. By encouraging a foresight approach, it is also an opportunity for risk management functions to contribute to the strategy of the company.

Emerging risk definition

Emerging risks are those which could potentially be impactful in the next five-to-10 years. They are defined as either new risks, or risks that already exist but one or more of the components of the risk's current dynamics are not adequately understood, be it hazard, exposure and/or vulnerability to the hazard.

Emerging risk framework and 2023 outcomes

The Emerging Risk Management Framework includes:

- Risk identification: The risk identification is performed through interviews with key stakeholders from a large number of AXA IM departments (including investment platforms, client group, legal, the regulatory development team, innovation team, responsible investment team, Human Resources, etc.) and with inputs from AXA IM executives
- Risk Prioritisation: All risks are assessed according to their severity and their impact time horizon. Risks are then prioritised using the severity assessment performed, and based on any other relevant prioritisation criteria
- Mitigation actions: As part of this exercise, existing mitigation plans are identified, and new mitigation plans are agreed where relevant

The outcomes of the emerging risks exercise are discussed at the AXA IM Global Risk Committee. Since 2022, we have been progressively integrating the identification of ESG-related risks withing our Emerging Risk Management Framework. As such, risks related to ESG, including climate change, biodiversity and more broadly linked to the deployment of sustainability-related regulations are included in the top emerging risks identified for AXA IM. To mitigate these risks, a specific internal governance is now in place, involving stakeholders dedicated to sustainability-related topics.

AXA IM Core

We believe the consideration of non-financial factors, specifically ESG issues, can help us deliver sustainable returns over the long term.

There are four key reasons why we believe considering such factors is important:

- They can help identify companies with serious ESG risks
- They can help improve our understanding of how long-term issues are integrated into a company's strategy
- They allow us to refocus portfolios around companies we think have implemented good practices in terms of their ESG impact
- They can inform an active dialogue around the management of ESG issues, potentially helping improve companies' performance and thereby limiting our ongoing exposure to risks

AXA IM Core has a comprehensive and proactive approach to integrating ESG factors into the decision-making process across equity, fixed income and multi-asset platforms. This approach, which consists of the three pillars below, not only allows us to assess risk and return more systematically but also has the potential to create positive impact and contribute to a more sustainable future.

1. **ESG data & research:** Integration of ESG data & qualitative analysis to evaluate investment risks and opportunities as part of the investment process
2. **Exclusions:** Apply Top-level and ESG Standards exclusions to mitigate adverse ESG risks and set clear standards for sustainable investing
3. **Stewardship:** robust & measurable voting and engagement, where we focus on strategic ESG issues and engage with companies before risks materialize

In equity portfolios managed with a quantitative approach, ESG scores and key performance indicator targets are added to traditional alpha and risk measures. This ensures the highest ESG rating is favoured in portfolio construction when faced with identical stocks from a traditional investment perspective. In addition, our research has shown that boardroom diversity influences companies' profitability, and as such, we explicitly consider diversity in our proprietary models to measure earnings quality. This approach, which consists of the three pillars below, helps us to manage risk effectively and create a positive impact by investing in companies which prioritise ESG factors.

In equities managed with a judgmental approach, the investment teams work closely with dedicated equity ESG & Impact analysts. These experts conduct their proprietary fundamental research on extra-financial criteria of companies under investment consideration. Their role is to analyse corporates on ESG considerations from both a risk and opportunities perspective. In addition they perform impact assessments on companies to determine eligibility for inclusion in our listed equity proprietary Impact universe.

In fixed income, our credit analysts use ESG measures to identify material concerns that could impair the credit quality and long-term sustainability of issuers. By incorporating a wide range of ESG factors into credit analyses, we can identify those risks most relevant to credit investors and potentially minimise downside risk. ESG factors are also important for sovereign and quasi-sovereign debt and are therefore integrated into our investment process, with different quantitative indicators for sovereign issuers to corporate issuers.

The Multi-Asset platform leverages the ESG integration within the Equity and Fixed Income platforms. We actively participate in sustainability dialogues with company management to encourage responsible corporate behaviour and disclosure practices. We believe this approach not only creates positive impact but can also potentially generate long-term benefits for our clients.

As of the end of 2023, AXA IM Core managed €399bn in assets which integrate ESG criteria. Furthermore, €35bn of assets under management have been awarded with the French sustainability label ISR[41] and €7.8bn with the Belgian Towards Sustainability label.

Our fund and strategy offering

Our mission is to meet the ever-increasing demand from clients through a comprehensive and innovative range of strategies and open-ended funds, many of which place sustainability at the heart of their objective and therefore go beyond mere ESG integration. Our range has also been designed in line with AXA IM's overall priorities such as climate and biodiversity, and includes:

1. ESG integrated strategies where investment teams take account of ESG risks and opportunities when making investment decisions and where ESG is embedded in the investment process to help achieve risk-adjusted returns. In most cases our portfolios also explicitly include an ESG score objective and/or targeted ESG characteristics
2. Our ACT funds which are designed to create long-term sustainable value for clients while driving meaningful change for society and the environment. As of the end of December 2023 this includes 25 funds and two ETFs, each investing with focus on Planet or People, or People and Planet. Within 'Planet' we manage portfolios focused on decarbonisation (e.g. carbon transition fixed income) as well as portfolios investing in client solutions (e.g. dedicated biodiversity equity).
3. A range of equity and credit Paris Aligned Benchmark (PAB) ETFs launched in 2023 to cater to clients who wish to achieve their goals using the PAB framework within an ETF wrapper.

41 Based on the second version of the Label ISR rulebook, as of end 2023.

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Equity

Beside ESG qualitative analysis, a dedicated team of analysts conducts impact analysis on companies according to a five-pillar proprietary framework.

As a member of the advisory committee of the Global Impact Investing Network (GIIN), we contributed to the Guidance for Pursuing Impact in Listed Equities published in March 2023. Our impact investment analysts use our proprietary impact research framework to assess the contributions of companies to environmental and/or social objectives and the UN SDGs. This framework is based on five pillars which are specific to impact investing and is used in our impact funds to identify companies contributing to funds' predefined targeted impact objectives.

Through our research, we seek to identify 'Impact Leaders' – the highest-rated companies in terms of delivering positive societal impact. We typically focus on companies selling critically important goods and services and which generate significant additionality by leveraging technology, scale or innovation to make goods and services accessible and commercially viable in potentially underserved markets. We believe our in-depth impact research, when integrated into our traditional company and financial analysis, is a powerful tool to identify potential long-term winners.

Case Study – Social progress investment strategy

AXA IM's social progress strategy is based on an impact investing approach that aims to have a direct and positive effect on society while contributing to a more sustainable future. This strategy invests in publicly listed companies addressing a range of social needs – and which demonstrate a strong impact and clear alignment with social UN SDGs. Investment areas include affordable housing, financial inclusion, access to healthcare solutions, nutrition, safety, education and entrepreneurship.

To define the investment universe, AXA IM applies a socially responsible investment selectivity approach, along with a qualitative impact framework to evaluate the alignment of company activities to UN SDGs and quantify their impact on social issues. To comply with the French ISR label's updated guidelines, the fund commits to outperform its benchmark on two key performance indicators – carbon intensity and water intensity. The fund also applies additional exclusions on unconventional and conventional oil and gas, power generation, coal, tobacco, and weapons to comply with the QS 2021 Towards Sustainability label.

By adding environmental objectives to this social-focused strategy, AXA IM ensures the social objective does not come at the expense of environmental performance. Using an unconstrained, multi-cap strategy, the aim is to invest in publicly-listed companies in developed and emerging markets offering high growth potential and that focus on providing services across a range of social needs.

Engagement and voting

We conduct thematic projects aimed at supporting companies to reduce their negative externalities, to deliver positive impact and improve impact-related disclosures. We conduct engagement with issuers and track progress – achieving effective change can take time, and we define a timeframe which we consider reasonable for achieving these objectives, depending on the nature of the change we are targeting and the underlying concerns. These also differ according to country, issuer and relevant thematic area. These thematic engagement projects mainly aim to support our equity strategies within the ACT range in delivering more impact.

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Engagement status

Company responds

Case Study – Regeneron Pharmaceuticals

Engagement approach: **Engagement with objective**

Engager: **Core ESG and Impact Research**

In 2023, we began a sustainability dialogue with Regeneron Pharmaceuticals, a US-based biotechnology company providing antibody and protein-based therapeutics to help patients with life-threatening, infectious, and rare diseases. In our first meeting with Regeneron, we covered the company's pricing policies, access to medicine initiatives and impact-related KPIs.

Regeneron expressed a commitment to a value-based approach in pricing new medicines, considering long-term investment and risks inherent in scientific innovation. In this context, the company stressed its commitment not to increase the price of its top-selling product, Eylea, notwithstanding the ongoing substantial research and development investments to support approval for additional medical conditions. We also discussed Regeneron's compassionate use programmes for early patient access to make certain medicines available to eligible patients before they are commercially available, as well as other financial assistance initiatives. In terms of impact related KPIs, Regeneron confirmed its continuous monitoring and estimation of the number of patients impacted by its products, building on conservative estimates from 2022 and aligning with its commitment to enhance transparency and accountability in this aspect.

Overall, we appreciated the company's responsiveness and commitment to ongoing discussions. We plan to monitor significant developments for future engagement opportunities.

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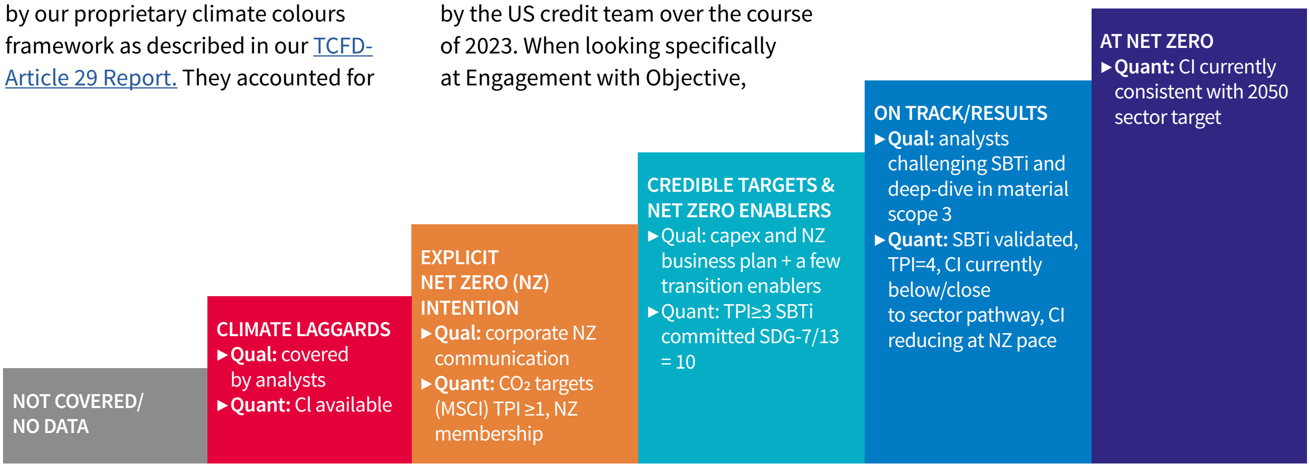
Fixed income

Corporate ESG analysis

In AXA IM's credit process, analysts use a qualitative ESG template to assign a view on company management and momentum around ESG issues. Credit analysts highlight ESG strengths and concerns, ESG KPIs and governance structure, with the key ESG topics, risks and KPIs highlighted at the discretion of the analyst, allowing them to select topics most relevant to the issuer. AXA IM uses a framework to assess the transition plan of investee companies in line with our net zero commitment. The framework leverages quantitative information from third-party sources and qualitative analysis to confirm the credibility of the strategies. The credit research team reviews past decarbonisation performance, forward-looking measures, and capital allocation in the context of sectoral and geographical characteristics to identify leaders and those lagging in achieving net zero.

Case Study - Climate colours engagements

Our US credit team annually defines a focus list of companies, prioritising issuers designated 'red' or 'orange' by our proprietary climate colours framework as described in our [TCFD-Article 29 Report.]() They accounted for 42% of engagements (including both 'Engagement with Objective' and 'Sustainability Dialogue') conducted by the US credit team over the course of 2023. When looking specifically at Engagement with Objective, engagements with 'red' or 'orange' accounted for 60%.



Source: AXA IM climate colouring system, based on PAII Net Zero Investment Framework, 2021.
CI = carbon intensity; TPI = Transition Pathway Initiative. For illustrative purposes only.

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Sovereign ESG analysis

Analysts and portfolio managers have access to sovereign ESG scores and ESG-related KPIs in their front office tool as a complement to traditional macroeconomic country analysis. We believe a full assessment of each ESG pillar is necessary to understand the impact of ESG factors on long-term economic sustainability. For sovereigns, among key ESG topics, we have particularly targeted CO_2 emissions, energy use, renewable energy consumption and the water exploitation index score.[42]

Discussions also take place with sovereign issuers on ESG topics during regular meetings with Treasuries, agencies, central banks and other government ministries as well as during the process of green and social bond issuance. All offer an opportunity to delve into sovereigns' public spending programmes around sustainability and to better understand a country's ESG risks. In 2023, we had 17 engagement discussions with 15 quasi-sovereigns, governments, agencies and supranational issuers.

Case Study - Japan's Government

Engagement approach: **Sustainability Dialogue**

Engager: **Core Sustainability Analysts**

We met with Japan's Government to discuss transition financing because of its push to fund a green transformation through a specifically-labelled bond. We provided feedback on its plan to label the bond as a transition bond although there are components of green. For example, a portion would fund renewable energy which is considered a green activity and not a transition activity. We affirmed that this was in line with our expectations as we do not want activities financed by a green bond that are not actually green included, while we find it acceptable to include greener activities within a transition bond.

We also clarified that we support the use of the label 'transition bond' in the market, contrary to other actors who prefer only a green label that accommodates a spectrum of activities, some of which can be brown – which we believe may engender issues of credibility and greenwashing. We reiterated our willingness to invest across the spectrum of the low-carbon transition once projects are labelled accordingly. We discussed with the issuer our vision for what transition means, highlighting that any transition financing instrument needs to exemplify an ambitious sectorial decarbonisation pathway using best available technologies and should not engender lock-in of carbon intensive assets in the economy.

We would expect transition instruments to fund projects that deliver significant efficiency gains. We also mentioned our openness for frameworks to be broad by including categories or projects for which technologies are not yet widely scalable as it leaves room for flexibility. However, we also highlighted that as new technologies become available for the sector, frameworks and transition plans should be updated accordingly to represent a decarbonisation pathway using best available methods. We suggested any limitations should be highlighted in the issuer's roadshow materials, framework or reporting.

This was a very positive discussion with the Japanese Government, which took our feedback and expectations into consideration when finalising its sovereign transition bond framework. We also participated in a seminar during COP28 along with representatives of the Japanese Government, to share our views on the role of sovereign bonds in transition financing.

Green, social and sustainability bonds engagement

Engagement with bond issuers is an important aspect of our active ownership, as we are long-term investors and often hold bonds to maturity. Engaging on ESG issues is a critical way to ensure we manage the value of our bond investments over time.

Our engagement goals and activity

We met with 98 GSSB issuers in 2023. Beyond alignment with the recommendations of the International Capital Market Association's Green Bond Principles, our main area of focus was to discuss GSSB alignment with issuers' sustainability strategies and forward-looking ambitions.

We have seen some positive outcomes. More and more issuers established concrete ESG objectives and disclosed it within GSSB frameworks. On the other hand, given our higher expectations, poor ESG profiles and ambitions at certain issuers were a significant factor in our deciding that some GSSB issuance was not eligible under our definition in 2023.

Another key topic of discussion with GSSB issuers in 2023 was around the inclusion of the EU Taxonomy and of the upcoming EU green bond standard in

[42] The European Environment Agency's water exploitation index measures the mean annual total demand for freshwater divided by the long-term average freshwater resources.

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Fixed income

market practices.[43] While it is still too early in our view to expect all issuers to align with these new requirements, we nevertheless have seen positive developments on this front. Issuers like French utility Suez, France's postal service La Poste, the European Investment Bank and the Republic of Austria have all included the EU Taxonomy technical criteria in their green bond frameworks.

In 2023, we developed our [assessment framework for Sustainability-Linked Bonds (SLB).]() This market is still nascent, but we had the occasion to share our views and expectations with some SLB issuers as well as other market stakeholders. We met with 12 SLB issuers in 2023, which allowed us to better identify good practices and clarify our expectations with this market.

Bondholder meetings

In 2023, AXA IM voted at five GSSB bondholder meetings, on 11 resolutions. One of them was related to a reclassification of a conventional bond to a green or social bond.

Bondholder meetings allow the issuer to submit to a vote any question related to the bond. These may include routine resolutions requesting additional documents, but also the increasingly frequent case of reclassification of a conventional bond as a green, sustainable or social bond.

Any vote on the reclassification of a conventional bond will be decided in collaboration with the ESG fixed income analyst, who will review the proposal (via the bond's framework) and give an opinion.

AXA IM has been involved in discussions with other parties (investors, banks and issuers) in accordance with the Green Bond Principles, since the end of 2022. We will continue to pursue this in 2024 in order to define best practices.

Case Study - Green bonds issuers engagements

In 2023, we started an engagement programme with existing green bond issuers that appear to be lagging in terms of their environmental and climate policies and strategies – notably with regards to our increasing expectations in those areas to ensure consistency with green bond issuances.

We identified six banks that are frequent green bond issuers and sent them each a letter requesting engagement and strengthening of their coal/climate financing policies:

- Mitsubishi UFJ Financial Group (MUFG)
- Bank of China (BoC)
- Sumitomo Mitsui Financial Group (SMBC)
- Agricultural Bank of China (ABC)
- Industrial & Commercial Bank of China (ICBC)
- China Construction Bank (CCB)

The outcomes of this engagement programme were mixed. The Japanese banks MUFG and SMBC responded to our letter, and we had direct and insightful discussion with SMBC. Both seems open to dialogue and willing to progress – particularly on SMBC's side.

On the other hand, their Chinese peers' response was mostly disappointing in our view, except for ABC. We had an in-person meeting with ABC and even though we did not feel the company had a strong alignment with our expectations, at least dialogue was opened.

While we contacted BoC, ICBC and CCB several times via letter and through other channels such as investor relations and underwriting banks, we did not receive a response to our engagement request. As a result, we considered this as failed engagement and downgraded our opinion on their green bonds to negative. We will continue engagement with the remaining banks and may adjust our opinion on their green bonds depending on their future progress on our requests.

Outlook for 2024

In 2024, we will continue work on GSSBs and engage with issuers to ensure compliance with eligibility criteria. The same discussions will be had with SLB issuers and opportunities to influence the development of the market and framework will be reviewed. In fixed income markets, we plan to review escalation techniques specific to large fixed income investors and monitor the use of the EU Taxonomy in the issuance of green and sustainability-linked bonds. This work will also support our participation to EU Platform on Sustainable Finance work.

[43] The EU Taxonomy is a European Union regulation. It is effectively a list of business activities which companies and investors can legitimately claim are 'climate friendly'. Ultimately, this should allow investors to make more informed and consistent comparisons between companies, based on the share of Taxonomy-aligned activity in their day-to-day operations.

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Case Study - Green bonds investment strategy

The launch of our global green bonds strategy in 2015 reflected AXA IM's commitment to help contain climate change and support the growth of the green bonds market. This was reinforced in 2022 with the launch of a new green bonds strategy with a specific focus on emerging markets and high-yield companies and the objective to generate a measurable environmental impact in these areas.

We have sought to build a robust eligibility framework to ensure the new strategy is entirely focused on green bonds that can potentially offer the same returns as a comparable conventional bond, with the added benefit of enabling projects with environmental benefits in a transparent manner. The green bond market has grown sharply over recent years, and now offers more diversification in terms of asset classes, regions and issuers.

A universal green bond definition is still in the making, but several standards are being put forward by major market actors.

The new global green bonds strategy was awarded with the French sustainability label Greenfin and the Belgian 'Towards Sustainability' label.[44]

[44] Green, Social and Sustainability Bonds: An update on our assessment framework, AXA IM, September 2022

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Multi Asset

Case Study - Multi asset optimal impact investment strategy

Within our Multi Asset Optimal Income range, we manage an 'Impact' strategy which is part of our ACT range and focuses on the theme of prosperity for people and prosperity for the planet, aligned with relevant UN SDGs.

As a global multi-asset impact strategy, it seeks to invest in businesses that focus on providing products or services and/or finance projects which have demonstrated a strong positive impact on social and environmental factors, in addition to a clear alignment with the SDGs.

With regards to universe construction, the strategy can invest in equities and in debt securities, notably GSSBs. The investment process relies on two robust impact proprietary frameworks to build the equity impact universe. These frameworks aim to assess the eligibility of GSSBs while identifying and monitoring the sustainability and SDG-alignment of companies.

On top of AXA IM's RI sectorial and normative exclusions, the fund applies additional exclusions on unconventional and conventional oil and gas, power generation, coal, tobacco and weapons to comply with the Towards Sustainability label. [45]

[45] Making sustainability in finance the norm, Towards Sustainability, retrieved February 2023

AXA IM Core

Multi Asset

Case Study - Sanlam

Engagement approach:
Engagement with objective

Engager: **Core ESG and Impact Researchh**

Sanlam is a pan-African financial services group based in South Africa that specialises in life and general insurance, financial planning, retirement, investments, and wealth management. In 2022, Sanlam reported it had 50 million customers across 31 countries. The majority of its earnings, at 75%, are generated in South Africa.

Insurance companies are key to a sustainable financial system due to their role as a risk manager, risk carrier and investor. Access to affordable insurance is vital for low-income people and micro, small and medium sized enterprises (MSME) as an alternative to informal coping mechanisms, helping them build resilience against economic, social and environmental shocks. African countries are arguably the most exposed to the risks and devastating effects of climate change and economic uncertainty – and yet, they are the least protected by insurance instruments.

Sanlam makes positive contributions to SDG 8.10 and SDG 10.2, providing insurance products in underserved markets and promoting financial and economic inclusion in Africa. The company's partnerships with Capitec, MTN, and Shriram Group have helped bring affordable insurance and microinsurance products to underserved customers. ESG integration in investment activities is evidenced by the adoption of a responsible investment policy, engagement efforts with investee companies, and the creation of ESG and impact-focused funds.

ESG reporting practices are adequate, although we would appreciate additional disclosures related to the social impact of products, as well as an inventory of scope 3 emissions. Sanlam is exposed to carbon-intensive sectors, but the company is committed to gradually reducing the carbon intensity of loan and investment portfolios.

We met with Sanlam to discuss initiatives for financial inclusion, development of sustainable insurance and investment products, exposure to carbon-intensive sectors, and ESG integration in investment activities. While the company demonstrates a commitment to positive impact and responsible investment practices, we encouraged the disclosure of impact metrics and financed emissions. We also recommended the company establishes clear objectives and monitors progress towards these goals on an annual basis.

AXA IM Alts

Responsible investment sits at the core of AXA IM Real Assets' approach to business. We actively consider financial and non-financial criteria during our investment process – from origination of opportunities to the investment assessment and decision-making process at acquisition, and through to our active ownership of investments.

This integrated approach is fundamental to the good stewardship of our investments. By making specific non-financial considerations part of our investment processes, we believe we can ensure better visibility of sustainability-related risks and potential adverse impacts on our investments. This visibility should provide us with a broader perspective on asset and sector-specific risks which then informs our underwriting and asset selection. Ultimately, it also helps to shape our view on investment risk, returns and liquidity, and we believe it also enables our teams to better identify and unlock opportunities to enhance value for clients.

The integration of the assessment of sustainability risk at investment level and the application of group-wide sectorial exclusions and ESG-scoring methodologies can help us to address the most material sustainability risks at the time of an acquisition. From this position, we see an important opportunity to improve the performance of our investments through active management, stewardship and engagement. The goal is to amplify the impact we can generate through our investments while continuing to generate sustainable long-term returns for our clients.

Beyond meeting reporting obligations under new and upcoming regulatory requirements, AXA IM – alongside our parent AXA Group – is committed to supporting the goal of net zero as a member of the Net Zero Asset Managers initiative. This means working with our clients and partners to target net zero carbon emissions from our investment platforms by 2050, or before.

We acknowledge the scale of this challenge and recognise that success will only come through active collaboration and partnership. Accordingly, through 2021 we undertook a series of structured discussions across our investment platforms to encourage companies, borrowers and tenants to consider and disclose their environmental strategy and performance. These efforts were pursued in 2022 with additional questions on environmental strategies and performance progress.

AXA IM Alts

Real Estate Equity

As users of the assets, the tenants of the buildings under management are key contributors in achieving the objectives of the ESG strategy. We actively engage with them, convinced that cooperation with tenants is a necessary condition for the implementation of relevant and effective measures over the long term. It has been demonstrated that the proper use of a building's facilities is a key factor in reducing its environmental impact. For this reason, it is essential to be proactive in supporting tenants to make good use of building facilities and to provide them with recommendations and good practices to implement.

Our tenant engagement efforts are focused around three core areas:

LEARNING

Educating our tenants on ESG to influence behavior and improve buy in

TENANT ESG TRAINING
FIT-OUT GUIDE
ESG EVENTS
ESG GUIDES
FEEDBACK SESSION WITH TENANTS

MONITORING

Collecting **data** on the asset and leveraging it to create targeted solutions

GREEN LEASE INTEGRATION
SHARING CONSUMPTION DATA WITH TENANTS

LIAISING

Maintaining a **dialogue** with our tenants to understand their present and future needs

TENANT SURVEY

Learning

We distribute ESG guides to the tenants of our assets to educate and increase awareness of ESG issues and the specific features of our assets related to ESG. For commercial tenants we provide fit-out guides to aid in mindful procurement. Through our ESG Rating we track the number of assets for which such tools are already deployed.

Monitoring

We integrate an ESG clause (green lease) as standard to new contracts or contract renewal to maximise the sharing of consumption data from tenants and agree on ESG targets and monitoring for the building. We encourage the feedback of consumption data to tenants to further the discussion of targeted solutions.

Liaising

We perform annual tenant satisfaction surveys (see case study) to collect feedback from our tenants on their user experience and level of satisfaction. Between 2021 and 2022, 435 assets were included in such an initiative across Europe (excluding Switzerland), corresponding to €36bn of assets under management - circa 95% of assets under management in scope. We also promote the deployment of an annual ESG Committee, which is a meeting dedicated to ESG between the asset manager, the property manager and the tenant. In 2022, 50% of assets under management in scope report they have carried out an ESG Committee with at least one tenant.[46]

We continually work to increase our coverage and further internal and external integration of ESG by disseminating ESG training throughout our chain of stakeholders, from property managers to internal asset managers.

[46] AUM in scope exclude assets under development, platforms and assets out of scope such as forest, parking, plot of land and unit cells

Real Estate Equity

Commercial real estate debt

For our Commercial Real Estate (CRE) Debt platform, we sought to actively improve the level of data visibility on underlying assets to better inform our view of environmental risks. Historically, access to such data in private or secondary markets has been poor, which has hampered visibility of the efficiency or underlying ESG performance of assets.

We undertook a two-step approach to improve this.

First, we engaged with a third-party data provider to assist with the assessment of carbon emissions, based on estimated emissions per square meter for different asset types in different countries. This enabled us to generate an estimated carbon footprint for the portfolio. The natural limitations of this dataset were then addressed by including a second step which involved structural dialogue with our borrowers via a survey to collect various ESG information and KPIs including energy consumption.

2023 marks the third year in row where the annual survey has been circulated. The survey was sent out to over 40 borrowers, representing 58 loans valued at €9bn. We received a 90% response rate, representing some €8bn assets under management as of 31 December 2023, which is a 42% year-on-year increase.

Information shared since 2021 has, for example, helped us develop a deeper level of insight into carbon and energy efficiency-related risk in our portfolios, in addition to our growing knowledge base of physical and transitional risk. The information will further inform refinancing opportunities and our ability to work more closely with borrowers and underlying assets in our journey towards net zero before 2050.

Case Study

In 2021 we undertook the first EU-wide tenant satisfaction survey project to better understand the current needs and future expectations of the tenants within our assets. Tenants are sent a set of questions, through their property manager, which assess tenants' satisfaction regarding their relationship with the property manager and ESG topics. The scope is determined through consideration of several factors including asset class, level of operational control, and future investment plan.

Our target is to cover 100% assets under management in scope on a three-year rolling basis. Between 2021 and 2022, 435 assets were included in such an initiative across Europe (excluding Switzerland), corresponding to €36bn of assets under management (circa 95% of AUM in scope).

The aim of the survey is to establish an ongoing dialogue with our tenants by monitoring their views and integrating their feedback into our asset level actions plans. The output of the survey is considered in the ESG strategy of the asset and the wider portfolio.

The survey is sent out by property managers to tenants during the second half of the year with the survey closing to new respondents in November. In December the property managers share an analysis of survey responses, in line with metrics provided by the Global Real Assets ESG team. Using these results AXA IM works in collaboration with our property managers to identify areas of future focus within ESG.

The survey questions were composed by the Real Assets Responsible Investment team, in line with requirements from markets standards e.g., Global Real Estate Sustainability Benchmark (GRESB) and certification schemes, as well as internal metrics for property manager performance. In 2022, this process was refreshed, with the questions asked reduced to five from 10, to ease the process and ensure more accurate feedback. The questions covered satisfaction with the relationship with the manager, the quality of services provided and comfort levels, as well as focusing specifically on ESG communication. Feedback sessions were organised for the beginning of 2023.

AXA IM Alts

Listed Real Estate

Since 2021, we have been conducting an annual survey as part of the active stewardship of our listed real estate investment platform.

The survey was sent to over 70 companies within the European listed real estate universe to gain a better understanding of their qualitative and quantitative metrics associated with their ESG practices (including biodiversity and social risk) and performance. We are still collating the data from the 2023 survey. Nonetheless, the results for 2022 survey are as follows.

GRESB

- Of the respondent companies 73% are currently submitting to the GRESB. Several respondents recognised the current and future significance of GRESB in the market but cited its limitations in assessing the residential sector as their reason for not submitting to the GRESB survey. These firms indicated their intention to submit pending modifications by the reporting entity

Carbon Risk Real Estate Monitor (CRREM)

- 31% of the respondents reported use of the CRREM tool, with some companies (e.g. Gecina, Segro) stating the current set-up of the tool is not line with specific asset types

Physical risk

- 77% of the respondents declared they undertook a portfolio level assessment of physical risk. 15% of companies that monitor physical risk use MSCI's Climate Value at Risk tool

ESG targets

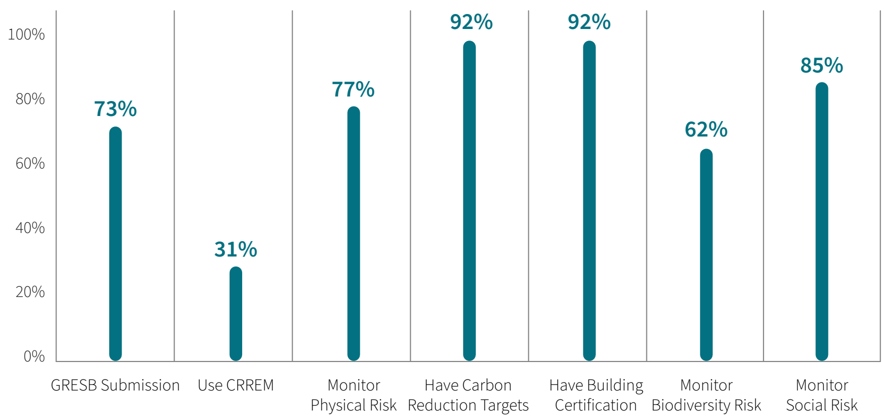
- 92% of firms had determined carbon reduction targets. 2030, 2040 and 2050 were common timeframes for carbon reduction, with several firms specifying the breakdown between scope 1 and 2, and scope 3 emissions.

Certifications

- 92% of respondents reported having some portion of their portfolio having a certification. However, firms cited a range of certifications – BREEAM; Haute Qualité Environnementale (HQE); and Leadership in Energy and Environmental Design (LEED); though there was a lack of consensus across the firms surveyed in terms of scope (partial versus whole building coverage). Furthermore, companies used different metrics (percentage of lettable area, number of buildings, percentage of revenues)

Energy performance

- All respondents declared that none of their investments in real estate assets were involved in the extraction, storage, transport, or manufacture of fossil fuels. However, 8% of respondents reported that a few of their residential tenants were utilising gas heating
- With regards to identifying inefficient real estate assets, there was a noted lack of consensus of the definition of an efficient asset (emphasising the need for pan-EU consensus on Energy Performance Certificate levels). Companies reported disparate readings with regards to exposure to energy-inefficient real estate assets. Shurgard had the lowest exposure at 15% with Icade having the highest at 89%



Source: AXA IM Alts, Company data as at 24/11/2023.

AXA IM Alts

Natural Capital and Impact Investments

The AXA IM Impact Investing strategy targets the delivery of market rate financial returns alongside the generation of positive, intentional, and measurable impact returns. Our guiding mission is to address the needs and aspirations of underserved people globally while protecting the natural environment and contributing materially and directly to the UN SDGs and targets that are relevant to our strategy.

Using alternative assets – private equity, venture capital, private debt, real assets and project finance – we invest in a broad range of impact themes that aim to deliver on our clients' financial and impact objectives.

We believe the proper management of ESG issues is critical to the long-term sustainability of businesses, and as such, the consideration, integration, and active stewardship of ESG issues is a fundamental part of our investment process.

We have developed a framework for the management of ESG issues that takes account of the alignment of prospective investments with applicable AXA IM RI policies, ESG regulations, standards and norms such as the International Finance Corporation's Environmental and Social Performance Standards, the Environmental, Health and Safety Guidelines of the World Bank and the International Labour Organization. This assessment framework is applied to investments during due diligence and over the tenure of our investments.

Our ESG assessment framework covers a comprehensive list of potential adverse impacts in line with emerging regulations. Our assessment framework takes account of a range of ESG issues including climate risks; biodiversity; pollution; health and safety; human rights; and governance concerns, amongst others. The ESG assessment framework is used to assess investees' performance on material ESG issues and identify areas where improvements are needed.

The ESG assessment framework is systematically applied to all our investments. Where we identified areas of improvement, we develop Environmental and Social Action Plans (ESAP) in collaboration with investees, detailing actions to be undertaken in relation to environmental and social issues identified as part of investment monitoring activities. The ESAP includes responsibilities and timelines within which corrective action needs to be undertaken. We actively monitor implementation of action plans and overall ESG performance throughout our investment tenure.

Case Study - Climate action engagements

In 2023, we adopted climate action as our engagement theme for our Natural Capital and Impact Investment business line with a view to fostering the greater engagement of small to medium enterprises in the fight against climate change, influencing them to take action to reduce their operational greenhouse gas emissions.

First, we conducted a survey to build a baseline understanding of how our investees measure, manage and monitor emissions across various emissions scopes – scope 1, 2 and 3. Our findings showed differing levels of understanding and challenges. While some investees are relatively advanced – and had measured their footprints credibly – and were establishing SBTi related targets, others are relatively nascent in their climate action plans.

The biggest challenge faced by investees was around the measurement and management of scope 3 greenhouse gas emissions.

Based on those first insights, in line with our active ownership approach and our stewardship responsibilities, we appointed a consultant at the end of 2023 to support our investees in their journey towards climate action. The consultant's remit includes the measurement of emissions, defining reduction strategies and providing opportunities to offset residual emissions through carbon offsets.

We trust this approach will enhance knowledge, accuracy and build a credible baseline for climate action by our investees. We will share the results of this thematic engagement in future Stewardship Reports.

AXA IM Alts

Alternative credit

On the direct investment side (leverage loans and private debt), teams constantly engage with companies, sponsors, and banks with respect to deal analysis and ongoing credit monitoring on a regular basis. The engagement activity is realised through an ESG questionnaire for companies and arranging banks, which is completed during the syndication period. In addition, for each new primary issuance the credit analysts meet company management. We have consistently promoted ESG considerations with the arranging banks and sponsors over recent years and believe we have been at the forefront of driving ESG in the leveraged loans market.

In summary, we:

- Seek to understand the ESG issues that impact companies in which we are invested
- Evaluate a company's policies and practices in relation to relevant issues
- Encourage companies to align with best practice on ESG issues
- Engage in constructive dialogue where a company's approach or practices on ESG matters is below investor expectations
- Leverage our clients' investor rights to push for desired outcomes from investee companies
- Align our votes at general meetings with our engagement objectives

On the secured finance side, we aim to leverage our size as one of the largest European investors in collateralised loan obligations (CLOs) to promote responsible investment practices. We aim to typically direct CLO managers towards higher standards in terms of ESG, both in their day-to-day corporate management as well as in their investment philosophy.

AXA IM only invests with CLO managers that respect minimal ESG guidelines (such as being signatory of a responsible investment international standard like UN PRI, having a carbon footprint reduction plan, an inclusion programme and exclusion policies). Engagement with compliant CLO issuers mainly occurs pre-investment. When necessary, we will continue the dialogue to clarify our expectations and support them in reaching those, for example by pushing laggards to respect ESG standards (such as to become signatory of UN PRI).

AXA IM Prime

Overview

AXA IM Prime is a fully integrated provider of investment solutions across private markets, including private equity, private debt, infrastructure and hedge funds, embracing a diverse range of strategies across primaries, secondaries and co-investments.

AXA IM Prime was established in 2022 and operates within AXA Investment Managers.

During 2023, AXA IM Prime developed an ESG integration strategy covering all stages of the investment cycle (pre-investment, investment/holding phase, and exit.)

Pre-investment, AXA IM Prime has a threefold ESG due diligence process built around compliance with AXA Group and IM sectorial exclusion policies, minimum ESG criteria, and an ESG score of targets' capabilities both at manager and portfolio levels. This assessment enables the identification of Key Improvement Areas which the ESG team will leverage to engage with the managers.

During the investment/holding phase, AXA IM Prime aims to use this stage of the investment cycle as an important opportunity for dialogue with its third-party general partners and managers. Therefore, we have put in place a structured approach to ESG monitoring and engagement, with the aim of contributing to risk management and sustainable value creation during the ownership/holding phase:

- Monitoring and engagement activities are carried out directly by the investment team in collaboration with the ESG team as required, including as part of annual meetings with investees to monitor and update ESG scores computed as part of the pre-investment ESG due diligence phase
- Structured dialogue also takes place with investees to ensure compliance with AXA IM Prime's ESG integration approach and clauses. This means assessing positioning against regulatory requirements, ESG innovation and trends, discussing ESG data reporting expectations at entity and portfolio levels, and identifying investment opportunities

In 2024, AXA IM Prime will continue to deploy its ESG strategy and further develop the engagement framework including monitoring and reporting.

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For more information on sustainability-related aspects please visit https://www.axa-im.com/what-is-sfdr

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