AXA IM Impact Approach for Listed Assets

December 2024

Impact Investing

Impact investing has historically been associated with private markets, but in recent years the investment community has worked to develop listed equity strategies which aim to deliver positive, measurable social and environmental outcomes alongside a financial return. While private market impact investing has an important role to play at a local level, public companies can enact change on a global scale, and often enable other companies across industries and geographies to deliver positive impact themselves, creating a domino effect.

Impact investing goes further than other forms of responsible and sustainable investing. It focuses on investing in companies that are generating positive and measurable change alongside financial returns. Investors don't have to choose between positive impact or the potential for strong financial returns - financial sustainability underpins both goals. Having an **intentional, disciplined,** and **credible approach** for **measuring real world change** as well as traditional financial analysis is therefore **essential to impact investing.**

AXA IM's Listed Impact Equity Approach

Our approach to impact investing seeks to align with the **Global Impact Investing Network (GIIN's) guidance for pursuing impact in listed equities.** Having been an active member of the GIIN's Working Group Advisory Committee, defining best practices of impact investing for listed equities, our definition of impact investing is based on the four key concepts it has defined to guide impact strategy design and implementation:

1 | Setting the strategy

Detailing what the strategy aims to achieve and how through a Theory of Change. This starts by defining the specific challenges to be addressed along with targeted, measurable outcomes, then identifying the investable solutions which will achieve these outcomes, and explaining how stewardship activities will contribute to enact real-world change.

2 | Portfolio design and selection

Following a replicable, consistent, and quantifiable methodology. Our methodology is based on quantitative UN SDG screening, a proprietary qualitative impact assessment framework designed by our dedicated ESG & Impact Research team, and structured financial analysis to identify companies that can generate outcomes aligned to the strategy's objectives and financial returns.

3 | Engagement

Driving investor contribution through long-term active ownership, engagement topics linked to the strategy's targeted outcomes, and advocating for transparency and impact KPI reporting.

4 | Use of impact performance data

Measuring progress in line with the Theory of Change by reporting and monitoring impact KPIs on both company and portfolio level.

AXA IM's listed equity impact strategies aim to generate positive measurable impact in two principal ways:

Asset contribution

Investing in listed companies which are making a net positive contribution to the strategy's targeted social and environmental outcomes, predominantly through the products and services they provide.

> *Asset contribution can be measured at a company and portfolio level using impact KPIs directly related to the strategy's targeted outcomes, such as 'number of people benefitting from healthcare solutions', or 'millions of acres covered by sustainable agriculture technology'.*

Investor contribution

Generating a positive contribution as a listed equity investor by providing additional capital through follow-on offerings and IPOs, and improving visibility of companies through our reporting initiatives. In addition, using engagement and voting to encourage companies to increase their positive contribution to the strategy's targeted social and environmental outcomes, set impact targets, report impact KPIs and reduce negative externalities can also create a positive investor contribution.

> *Investor contribution can be measured by, for example, '% of portfolio with an engagement target related to the strategy's targeted outcomes', or 'increase in the % of portfolio companies reporting impact KPIs'.*

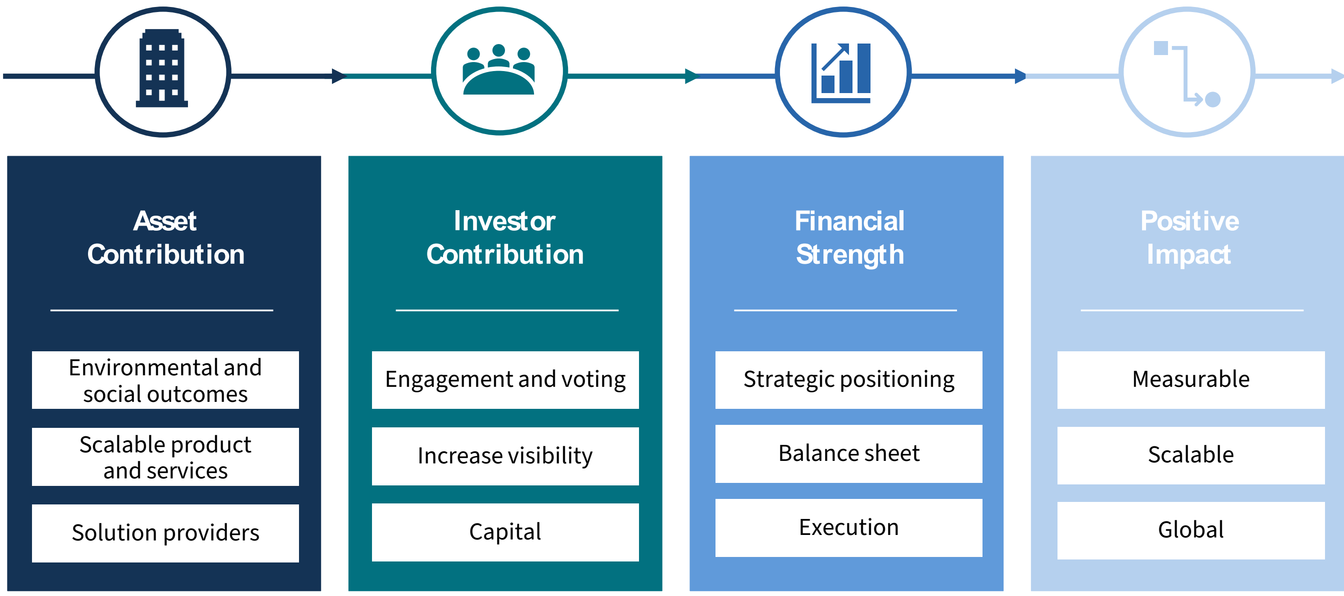
Our Philosophy and Core Principles

We believe that in order **to generate a long-term positive global impact, companies must be financially sound, well-managed, and have strong strategic positioning.** Their Financial Strength allows them to leverage their superior R&D and execution capabilities to generate positive, scalable impact through innovative, commercially more viable solutions and broader distribution. In addition, these quality companies can generate strong financial returns over the long-term helping us to meet our dual objective.

Financial strength can be measured by the exposure to structural growth, competitive positioning, operating leverage, management quality and track record of execution, funding and balance sheet strength.

AXA IM's Listed Impact Equity Approach

Generating positive measurable impact alongside financial returns



Our extensive analysis of the literature and research on global environmental and social risks has identified three targeted outcomes to address global challenges:

1 | Social progress

The need to drive social progress globally and improve living standards for all, to meet the goals of Agenda 2030.

2 | Energy transition

The need to decarbonise the global economy to limit global warming to below 2°C and reach net zero global emissions by 2050 or earlier, in line with the Paris Agreement.

3 | Biodiversity protection

The need to conserve nature, to halt and reverse biodiversity loss and to reach net positive impact on biodiversity by 2050 in line with the Global Biodiversity Framework.

Our impact strategies seek to target **social progress, energy transition and biodiversity protection** as impact '**outcomes**', investing into c**ompanies providing solutions** which will help achieve these outcomes.

Targeted Environmental and Social Outcomes

	Energy Transition in line with the Paris Agreement	**Biodiversity Protection** in line with the Global biodiversity Framework	**Social Progress** towards the UN's 2030 Agenda
Targeted Outcomes	*Limit global temperature rises to 1.5°C and reach net zero emissions by 2050*	*Stop biodiversity loss by 2030 Positive impact on biodiversity by 2050*	*Target the UN's goals for 'People', 'Prosperity' and 'Peace'*
Solutions	Low Carbon Transport	Sustainable Food and Agriculture	Inclusion
	Renewables and Grid	Responsible Production and Consumption	Healthcare Solutions
	Energy Efficiency	Resilient Infrastructure	Protection
Example KPIs	Renewable energy generated during the year	Waste materials collected and processed	Number of patients treated

We believe the globally recognised need to drive social progress, fight climate change, and mitigate biodiversity loss is set to have a transformative impact on the economy and on society and requires significant investment. We believe that the shift to a more sustainable world offers a multi-decade growth opportunity for investors who can identify the 'winners' of these three simultaneous transitions, companies which are providing innovative, global solutions to the world's key global challenges, alongside financial returns.

Our core principles

Investing in solutions

Given the urgency to halt global warming, biodiversity loss and drive social progress, we believe that investing in companies that are providing scalable, innovative products and services which help companies operating in high impact sectors to achieve these outcomes has a wider, more powerful impact compared to investing in companies which are simply improving their own footprint or complying with best practices. We believe that the positive impact of solution providers is more immediate and reaches beyond direct stakeholders and the locality of their operations.

Seeking scalable, global impact

Compared to impact investment in private markets, which generates positive social or environmental change often on a local project-based level, we believe that leading listed companies can provide scalable and commercial solutions that have the potential to have a net positive impact on millions of people's lives, or improve the environmental outcome across millions of acres of land, enacting real world change on a global level.

Engaging to drive real-world change

Our engagement topics are linked to our targeted social and environmental impact outcomes, and we follow up with management to monitor improvements. We aim to engage with some of the investee companies whose impact is not measurable in a quantified manner, encouraging them to publish quantitative indicators about the positive impact of their products and services

Measuring and reporting progress

We take a disciplined and credible approach to measuring real-world change and continuously work to increase the visibility of our impact portfolios. By providing annual strategy impact reports which report on the contribution of the companies we invest in, and our own contribution towards the impact outcomes we are targeting, we can measure and report progress.

Our Impact Assessment Framework

AXA IM's proprietary Impact Assessment Framework was developed by our dedicated ESG & Impact Research team using guidance from the GIIN and from the Impact Management Project/Impact Frontiers (HYPERLINK "https://impactfrontiers.org/norms/"Impact Management Norms | Impact Frontiers). It focuses on how a company's products & services contribute to achieving the targeted impact. For each company, the impact analysts develop a Theory of Change and try to identify a range of key performance indicators ("KPIs") which allows them to measure the asset contribution of companies, and the progression of such contributions over time.

A company's contribution to the targeted environmental and social outcomes are assessed and rated based on five key impact pillars:

1. Intentionality	2. Materiality	3. Additionality	4. Negative Externalities	5. Measurability
• Strategic commitment to generate impact • Impact targets and strong sustainability policies • Executive compensation includes sustainability criteria	• Materiality of the issues being addressed • Materiality of the solutions provided by the company • Share of revenues from these solutions in the revenue mix of the company	• Leading solutions through superior technology or reliability • Increased access through broader distribution • Affordable pricing	• Negative impact on environment or society • Controversies • Mitigating policies and actions	• Transparent measurement and reporting on impact and sustainability

Companies are classified into five categories and only companies rated in the best categories ("impact leaders", "impact contributors" or "SDG–aligned") are eligible for our impact strategy. **Companies rated Neutral or Detractor are not eligible**.

Our Team

The Listed Impact Equity team is an integral part of our core equity platform and draws on expertise across the business. It is supported by the ESG & Impact Research team and has a disciplined approach to investing, based around clear principles and a framework that aims to ensure consistently high-quality investment decisions.

The **independent ESG & Impact Research team** consists of six dedicated analysts that perform impact & ESG analysis. As an active member, AXA IM was amongst one of the 11 companies to be part of the Working Group Advisory Committee defining best practices of impact investing for listed equities. Consequently, our impact analysts' team has developed a rigorous impact approach to assess companies' degree of impact based on GIIN's guidance.

AXA IM as at 30 September 2024.

Our framework for investing in Green, Social and Sustainability (GSSB) Bonds

The processes detailed above feed into the way we assess companies issuing GSSBs. However, we have also developed a focused framework to help us decide on the viability of issuance in this space. The approach is built on four straightforward pillars.

1. The environmental, social and governance (ESG) quality and strategy of the issuer
2. The use of proceeds and the process for project selection
3. The management of proceeds
4. Impact reporting

For each pillar, our analysts review, assess and monitor several well-defined criteria, many of which are mandatory. At the very least, the issuer has to surpass our exclusion criteria and to comply with our "requirement" criteria in order to be investable.

If a GSSB also meets our "expectation" criteria, it would place the issuer among the GSSB leaders, in our view. The factors outlined below are intended to be indicative and non-exhaustive. This is primarily due to the fact that individual GSSBs can vary greatly and therefore their individual assessment involves subjective criteria, as is always the case in qualitative analyses.

At AXA IM, we believe that the use of proceeds of a green bond should reflect the issuer's efforts towards improving its overall environmental strategy and its alignment with the Paris Agreement on climate change. On the social side, the issuer should also make its ambition to deliver positive societal outcomes clear. Full transparency about the projects financed and on the tracking of the proceeds is therefore essential to our assessment. We pay particular attention to impact reporting, where both qualitative and quantitative indicators are expected.

Pillar 1: ESG quality and strategy of the issuer

Our first pillar is the one that makes AXA IM's approach different from the Green Bond Principles. Within the Principles, it is not considered as a fully-fledged pillar. By considering both the ESG quality and strategy of the issuer, our assessment aims to avoid 'greenwashing' – what could be perceived as green bonds issued for public relations reasons.

The ESG quality is considered according to AXA IM's proprietary ESG scores as well as the issuer's exposure to controversies. We want to ensure that the issuer demonstrates minimum ESG commitments and properly manages environmental and social risks.

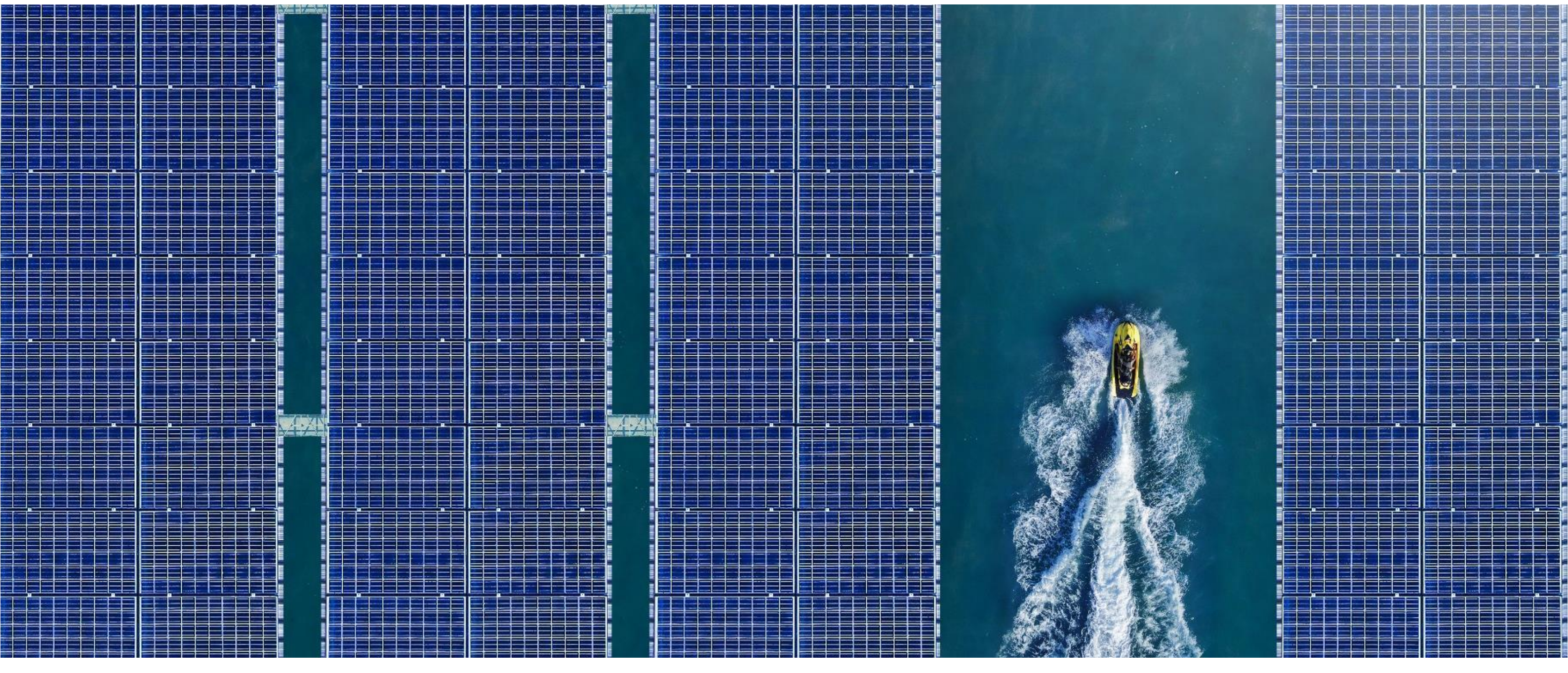
The environmental strategy refers to a forward-looking approach. The aim here is to evaluate whether the green bond fits into the issuer's environmental short- and long-term objectives. Green bond issuers should clearly exhibit a senior management and board-level commitment to align wider commercial strategy and activities with helping meet the COP21 Paris Agreement goals. We also expect green bond issuers to take action in order to align their business models with a global warming scenario below 2°C. An overall coherence between the environmental strategy and the green bond issuance is necessary.

Pillar 1: For social bonds

The assessment process for social bonds is similar, except for expectations. We want to ensure consistency between the social bond and the issuer's social strategy to avoid any opportunistic-only issuance that wouldn't lead to a lasting change. We also want to be assured the issuance is not only a public relation exercise.

GSSB pillar 1 breakdown

Requirement	Expectation	Exclusion criteria
▸ Clear definition of the issuer's environmental strategy and commitments ▸ Alignment of the green bond with its sustainability policies and processes	▸ Quantified short- and long-term environmental targets	▸ Weak ESG score ▸ Severe controversy



Pillar 2: The use of proceeds and the process for project selection

Our second pillar focuses on how the proceeds of a green bond are used. It merges the first two pillars of the Green Bond Principles. Our aim here is to control the quality of the eligible projects by understanding the selection process and the eligibility criteria. More importantly, we focus on projects or assets delivering additionality and impact. Our process rewards projects that are innovative, impactful and going beyond the issuer's "business as usual". AXA IM's green taxonomy is based on technical criteria from the EU Taxonomy and the Climate Bonds Initiative to ensure alignment with the Greenfin Label requirements.

Pillar 2 for social bonds

There are no specific exclusion criteria for our social bonds investments up to now. On the breakdown of the proceeds per project, we can be more flexible as our experience shows issuers are often not in a position to give any indicative split before the first anniversary of the social bond issuance.

The additionality aspect is key but poorly reported in the social bond market. While this is not a requirement, issuers who can justify the additionality of their social projects are viewed more favourably.

We nevertheless expect social bond issuers to apply relevant and robust criteria to define the target populations and areas that they aim to support through funded projects. This is very important to ensure that we will finance impactful social projects.

GSSB pillar 2 breakdown

Requirement	Expectation	Exclusion criteria
▸ Clear description of the eligible assets and the category they belong to ▸ Compliance with AXA IM's taxonomy ▸ Disclosure of the eligibility criteria for each category of eligible projects ▸ (At least) indicative or expected breakdown of the proceeds allocation to the eligible projects ▸ Disclosure of the process used to select and evaluate the eligible projects	▸ Description of how environmental and social risks and potential rebound effects related to the eligible projects are taken into consideration ▸ Estimated share of financing new assets versus refinancing existing assets, plus look-back period for existing assets ▸ Establish a qualified and diversified internal committee to select green projects ▸ Description of how eligible projects bring additionality (e.g. through financial incentives applied to green assets	▸ Any project related to fossil fuel or nuclear energy production, regardless of where it stands in the value chain ▸ Large new hydropower projects

Pillar 3: The management of proceeds

Our third pillar, similarly to the third of the Green Bond Principles, relates to the management of proceeds. It aims to verify that the issuer has sufficient guarantees in place to control the allocation of proceeds to eligible projects. We are looking to ensure that the green bond proceeds will effectively finance eligible projects.

Pillar 3 for social bonds:
The assessment process for social bonds is the same.

GSSB pillar 3 breakdown

Requirement	Expectation
▸ Description and transparency of the internal process used to track the proceeds	▸ External/independent verification of the proceeds allocation ▸ Segregation of the green bond proceeds in a separated account or portfolio

Pillar 4: Impact reporting

Our fourth pillar, also similar to the Green Bond Principles, focuses on reporting. While the principles only encourage issuers to provide impact indicators, it is a mandatory criterion within our assessment process. It allows us to measure our positive impact and the environmental benefits of our green bond investments.

Pillar 4 for social bonds:

The assessment process for social bonds is similar. We are particularly sensitive to the quality and clarity of impact reporting, which we know is more challenging in the social bond market. As impact reporting in the green bond market matures and improves, we are also encouraging green bond issuers to enrich their impact reporting with social KPIs when doable (e.g. when green projects have a positive social impact on surrounding communities). Of note, we can downgrade our opinion if we notice a breach in comparison to what was announced at the time of issuance.

GSSB pillar 4 breakdown

Requirement	Expectation	Exclusion criteria
▸ Allocation report to eligible categories, and balance of unallocated proceeds ▸ Provide relevant qualitative and quantitative key performance indicators (KPIs), at least for each eligible category ▸ Disclose details on the methodology, assumptions and baselines used to calculate the impact	▸ Rely on an independent third party in the calculation of the environmental impact ▸ Provide KPIs on a line by line basis	▸ No publication of an impact report

How we engage companies on the United Nations' Sustainable Development Goals

Engagement is an important route for investors to drive impact in listed assets – public equities and corporate bonds in particular. When done right, intervention by investors can help achieve broader goals such as the UN SDGs.

We believe engagement is a powerful way to change corporate practices and influence decision making. The proactive and effective use of investor rights and responsibilities is particularly relevant within the scope of the SDGs, where significant and rapid change is required. Governments and supranational bodies will provide momentum, but cannot be expected to lift the burden or effectively coordinate efforts alone.

The listed corporate universe is clearly a vital agent for change. We estimate that listed equities globally represent approximately $130 trillion.[ii] We consider engagement to principally be a tool for effecting change through this vast economic powerbase. Key areas of potential engagement include:

Products and Services: Encouraging companies to accelerate the shift towards solutions that contribute more efficiently to social and environmental issues. This comprises encouraging the commercial uptake of new and innovative solutions, and a move away from products and/or solutions that are traditionally associated with negative externalities.

Operations: Encouraging companies to implement sounder operational practices, to continuously improve their operational footprint and/or to enhance employer-employee relationships. Traditionally viewed from a risk-mitigation perspective, we think operational footprint optimisation can also prove an opportunity to generate positive impact, notably as we consider products' and/or solutions' lifecycle emissions and impacts.

Board and management accountability: Establishing clear expectations of board directors and senior executives about their capacity to assess and profit from commercial opportunities related to the SDGs. This includes ensuring the right expertise on the board and the appropriate board-level processes and structures to ensure that new commercial opportunities related to impact can be identified.

Transparency: Calling for transparency from companies around their strategic decision-making processes and capital allocation to commercial activities related to the SDGs. We are also pressing for this information to be disclosed publicly either in a report or verbally. We will question the extent to which a firm's SDG contributions are genuine and aligned with its broader corporate strategy.

Measurement: Requesting details on internal methodologies that firms use to assess, on an ex-ante basis, the potential impact and additionality from their capital allocation to impact-related opportunities. This should lead to a framework which companies can implement to measure key performance indicators on an ex-post basis.

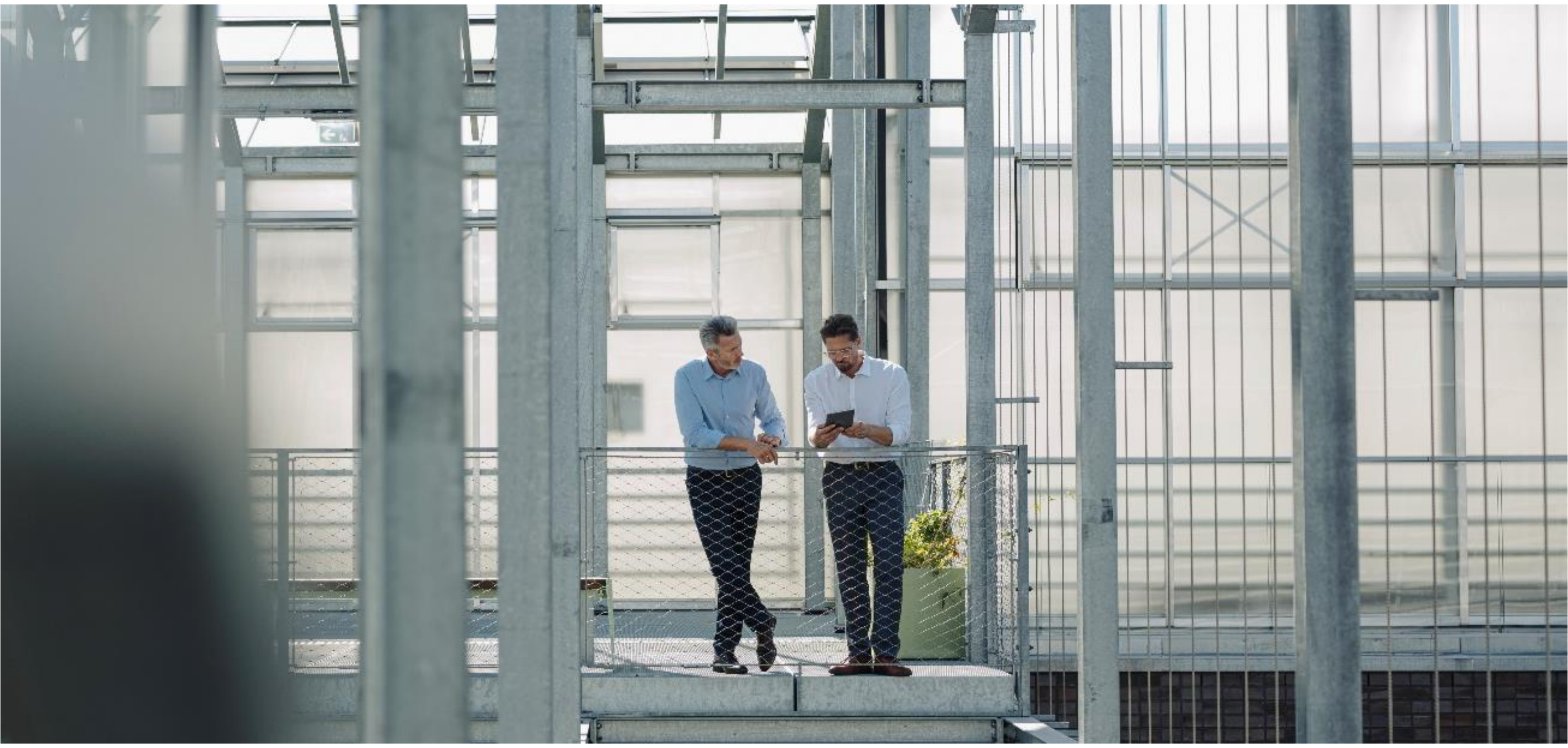
Reporting: Asking for the implementation of regular reporting on impact and SDG-related metrics.

[ii] Source: FactSet, AXA Investment Managers, November 2024

We believe that these targets are sufficiently ambitious and consider them to be long-term engagement objectives.

Separately, we will also continue our involvement in appropriate industry initiatives for collaborative engagement and public policy-related dialogue. We also collaborate with other global financial institutions to overcome some of the broader challenges of impact investing in listed assets. AXA IM is a member of the Principles for Responsible Investment and the Global Impact Investing Network. We sit on the investor council for the latter.

We also are long-running participants in broad range of working groups and public policy consultations. For example, this includes supporting the Task Force in Climate Related Financial disclosures and providing feedback to the European Commission's taxonomy for environmentally sustainable economic activities.[iii]



Mapping our GSSB investments with the SDGs

The high level of transparency that we expect from the GSSBs in which we invest allows us to know what type of green and social activities we fund, and align them with the SDGs. There is no consensus on the way to approach SDGs in the GSSB market. We therefore built our own methodology to map the SDGs against our GSSB taxonomy. We distinguish between the green and social activities that directly contribute to some of the SDGs, and those that only align with it.

An illustrative example of the kind of mapping we carry out is shown on the following page. We aim to measure our contribution to the SDGs through our GSSB investments. We also pay great attention to doing "no harm" to some SDGs while helping achieve others. To ensure that, we rely on the two first pillars of our assessment framework – the ESG quality and sustainability strategy of the issuer, and the use of proceeds and process for project selection.

[iii] Task Force on Climate Related Financial Disclosures Supporters

Environmental Projects / SDGs

	SDG 1	SDG 2	SDG 3	SDG 6	SDG 7	SDG 8	SDG 9	SDG 11	SDG 12	SDG 13	SDG 14	SDG 15
Renewable Energies			✓		✓	✓	✓	✓		✓		
Energy Efficiency					✓	✓	✓	✓		✓		
Green Buildings								✓		✓		
Low-Carbon Transportation			✓				✓	✓		✓		
Water Management				✓				✓	✓		✓	✓
Waste Management				✓		✓		✓	✓		✓	
Sustainable Land Use			✓						✓		✓	✓
Adaptation Infrastructure	✓	✓					✓	✓		✓		
Biodiversity Conservation		✓		✓							✓	✓

✓ Direct Impact ✓ Alignment

Source: AXA IM and United Nations

Social Projects / SDGs

	SDG 1	SDG 2	SDG 3	SDG 4	SDG 5	SDG 6	SDG 7	SDG 8	SDG 9	SDG 10	SDG 11
Affordable Basic Infrastructure						✓			✓		✓
Access to Financial Services	✓							✓		✓	
Access to Education	✓			✓				✓		✓	
Access to Energy	✓						✓			✓	
Access to Healthcare	✓		✓							✓	
Access to Telecommunications	✓								✓	✓	
Affordable Housing	✓									✓	✓
Employment Generation: Microfinance	✓										
Employment Generation: SMEs Financing								✓	✓		
Food Security/ Sustainable Farming		✓									
Socioeconomic Empowerment	✓									✓	
Women Empowerment					✓					✓	

✓ Direct Impact ✓ Alignment

Source: AXA IM and United Nations

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