



# Designing Sustainable Portfolios and ESG Investing



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**Part 1. Overall ESG approach of *AXA Group***

**Part 2. Metrics and targets**

**Part 3. ESG integration in *AXA HK***

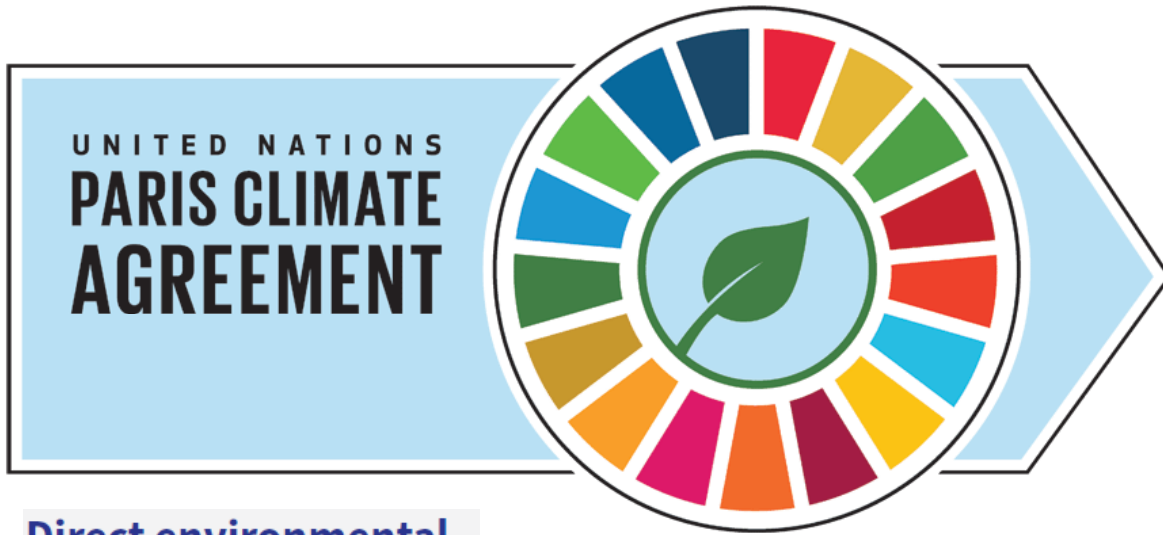
**Part 4. Case study: *AXA Natural Capital Fund***



# 1. Overall ESG approach of *AXA Group*



# 1. Overall ESG approach of AXA Group



## Direct environmental footprint

**-61%**

AXA's decrease in absolute CO<sub>2</sub> emissions between 2019 and 2021

Achieve carbon neutrality for own operations by **2025**

## Investment and business exclusions

**€7.5bn**

total assets impacted by divestment policies

## Voting & engagement 2021

**5,546**

General Meetings voted

**59%**

meetings where AXA did not fully support management proposals

**283**

issuers engaged

**AXA** has been a pioneer in creating and implementing an ambitious climate strategy. In 2015, the year the Paris Agreement was signed, AXA sounded the alarm stating that “a +4°C world is not insurable” and backed up this statement with one of the industry’s first coal divestment policies.

AXA’s current **climate strategy**, launched in November 2019, supports the concept of aligning AXA’s business with the **Paris Agreement**. To contribute to this overall ambition, AXA has made the following commitments:

- targeting **no more than 1.5°C ‘Warming Potential’** of **investment portfolios** by 2050
- an intermediate term target to **reduce the investment-related carbon footprint by 20%** between 2019 and 2025
- a **green investment target** of €26bn by 2023
- a long-term **exit strategy** from the coal industry backed by strict investment and underwriting restrictions
- a target to reduce its **direct environmental footprint** by 20% between 2019 and 2025 and achieve **carbon neutrality** for its operations by offsetting remaining emissions
- an enhanced energy policy and an alignment of **climate and biodiversity** goals

# 1. Overall ESG approach of AXA Group






## Sustainability Ratings

In addition to being a signatory to the UN Principles for Responsible Investment (UNPRI), AXA's **social, societal, environmental and governance** performance is rated by several specialist agencies.

AXA generally ranks amongst the top performers in its industry and is also included in the main international sustainability indices:

- › DJSI World and DJSI Europe (based on Standard & Poor's research)
- › Euronext Vigeo, World 120, Eurozone 120 and France 20 (based on Vigeo Eiris research)
- › FTSE4GOOD (based on FTSE Russell research)

AXA's main SRI ratings are listed below (not all ratings are updated annually):

Agency/Organisation	Scores & ratings
 Member of Dow Jones Sustainability Indices <small>Powered by the S&amp;P Global CSA</small>	Score: 87/100 - Sector average : 40/100 Percentile ranking: 97 <sup>th</sup>
 MSCI ESG RATINGS	Rating: AAA (since 2015)
 V.E	Score 68/100 - Sector leader
 SUSTAINALYTICS	Ranking: 6/295 in sector
 FTSE4Good	Present in the index since 2012 FTSE ESG Score: 4/5

*Note: The Dow Jones Sustainability Index is a reference performance indicator for AXA, its methodology serves as the basis for the AXA Entities Sustainability Index since 2010, and is one of the performance metrics used to calculate long term incentives (Performance Shares) since 2016.*



# 97<sup>th</sup>

AXA's percentile ranking (DJSI)

# AAA

MSCI ESG Ratings

AXA achieved a score of **91/100** (as of 17<sup>th</sup> Nov 2022) in the latest edition of S&P Global Corporate Sustainability Assessment, **reaffirming its leadership position in the field of sustainable development.**

# 1. Overall ESG approach of AXA Group

## Stewardship & Engagement

We see engagement and voting as a fundamental part of our fiduciary duty to clients as we seek to protect portfolios and help build sustainable economies for the decades to come.

Shareholder engagement and voting is either done directly by AXA or by AXA IM on behalf of AXA.

AXA has established an **Engagement & Monitoring Working Group** which reviews issuers from a pure ESG perspective and can decide on specific follow-ups, such as requests for engagement.

AXA IM also has a strong track record of engagement and voting, with the goal of promoting a just and green transition to a more sustainable future.

## 2021 data overview

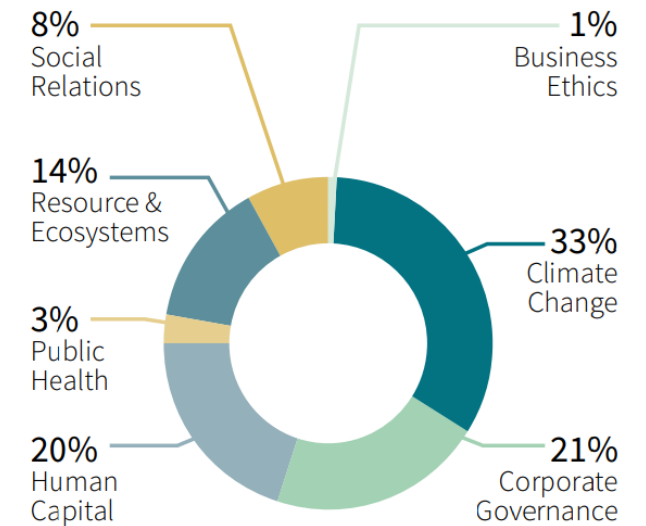


in 2021,  
we conducted  
**283**  
engagements  
with  
245 entities



**71**  
engagements at  
senior executive  
or board director  
level

Our engagement with companies covers a broad spectrum of key  
**ESG**  
themes



*“Through stewardship, as in all our business endeavors, we are guided by our purpose – to act for human progress by investing for what matters”* Marco Morelli, Executive Chairman, AXA IM

# 1. Overall ESG approach of AXA Group

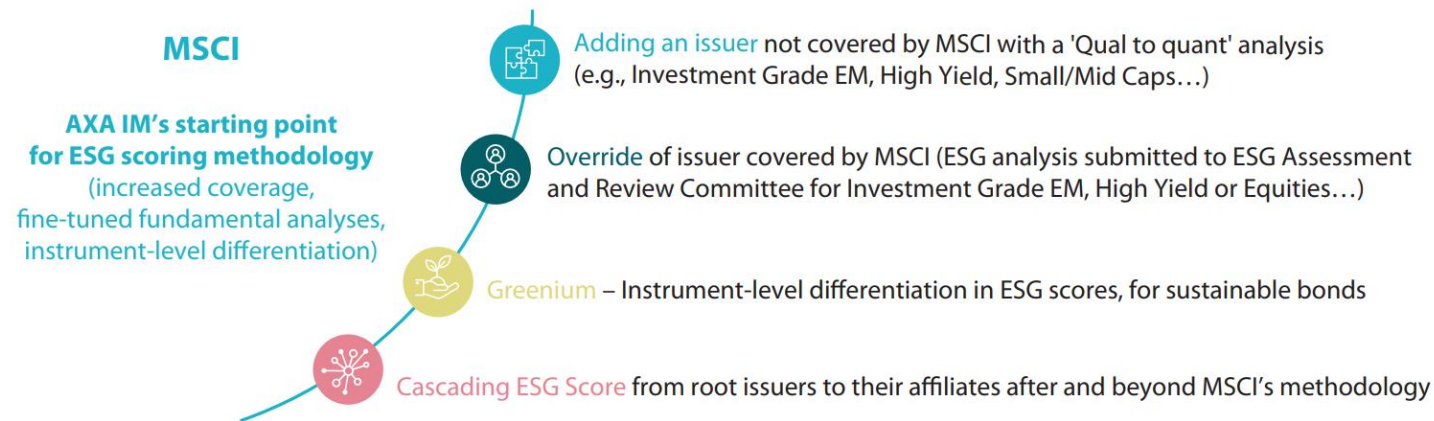


## ESG integration

Both **qualitative** and **quantitative** approaches are adopted:

- Since 2015, AXA has made ESG integration a cornerstone of its investment policy by factoring ESG considerations into its qualitative credit assessments.
- AXA also uses quantitative ESG-specific tools and measurements tailored to each asset class (corporate credit and equity, sovereign credit).

### AXA IM's scoring methodology



- Certain activities and products are deemed to be inconsistent with AXA's climate strategy and broader sustainability goals. In this context, AXA has developed specific "sector guidelines" that seek to address those issues.

## Integrating sustainability factors

**85%**

of the Group's Credit Portfolio covered by an internal credit rating

**8,000+**

companies covered by AXA's ESG research

**93%** corporate equities

**87%** corporate debt

**98%** sovereign debt

**73%** Real Estate

covered by ESG scoring



## 2. Metrics and targets



## 2. Metrics and targets

### Group-wide metrics



To make AXA's Purpose **"Act for human progress to protect what matters"** tangible for all AXA teams, AXA launched the "AXA For Progress Index" in April 2021.

It is designed to measure and track progress in rolling out AXA's Purpose across all AXA activities.

This index is based on commitments shared across the Group to further **embed sustainable development in AXA's activities as an investor, insurer, and exemplary company.**

To ensure accountability, the progress towards the commitments embedded in the index will be published on an annual basis.

## 2. Metrics and targets



### Focusing on the climate impact of our investment portfolios

METRIC TYPE		ASSET CLASS	DATA PROVIDER	WHAT IS MEASURED?
WARMING POTENTIAL		SOVEREIGN DEBT	BEYOND RATINGS	Contribution to global warming, expressed in °C.
		CORPORATE BONDS & EQUITY	MSCI	Contribution to global warming, expressed in °C.
CLIMATE VALUE-AT-RISK	PHYSICAL RISKS COSTS	CORPORATE BONDS & EQUITY	MSCI	Impact of extreme weather events (asset damages and business interruption), expressed in % of Enterprise Value (EV).
		REAL ASSETS	AXA	Building-level impacts of extreme weather events, expressed in €m.
	TRANSITION RISKS COSTS	CORPORATE BONDS & EQUITY	MSCI	Impact of CO <sub>2</sub> emissions reduction, expressed in % of Enterprise Value (EV).
	TECHNOLOGICAL OPPORTUNITIES	CORPORATE BONDS & EQUITY	MSCI	Revenues related to technological opportunities (green revenues & patents), expressed in % of Enterprise Value (EV).
GREEN SHARE		SOVEREIGN DEBT	BEYOND RATINGS	Share of low-carbon energy in primary energy use (hydropower, wind, solar, geothermal, tidal, nuclear).
		CORPORATE BONDS & EQUITY	Truist ESG Analysis	Green revenues, expressed in % of revenues.
CARBON FOOTPRINT		SOVEREIGN DEBT		Carbon footprint of AXA's portfolios expressed in T.eq.CO <sub>2</sub> /\$m of revenues (corporates) or GDP (sovereigns).
		CORPORATE BONDS & EQUITY	Truist ESG Analysis	
		REAL ASSETS	AXA	EV-based carbon footprint of AXA's portfolio, expressed in T.eq.CO <sub>2</sub> /EV €m (normalized per Enterprise Value). Absolute carbon emissions pro-rated per AXA's holdings, expressed in T.eq.CO <sub>2</sub> .
		CORP. BONDS & EQUITY (EXCL. FINANCIALS)	Truist ESG Analysis	
		CORP. BONDS & EQUITY (EXCL. FINANCIALS)	Truist ESG Analysis	

AXA has tested different approaches to analyze the “**climate dynamics**” of its investments since 2016.

As the climate impact of our investment portfolios is a **complex & multi-dimensional phenomenon**, we have elaborated relevant metrics to build a holistic representation of our portfolios impact.

AXA continues to **refine these methodologies** by engaging with external data providers (MSCI, Beyond Ratings, S&P Trucost) and industry groups.



### 3. ESG integration in *AXA HK*



### 3. ESG integration in AXA HK



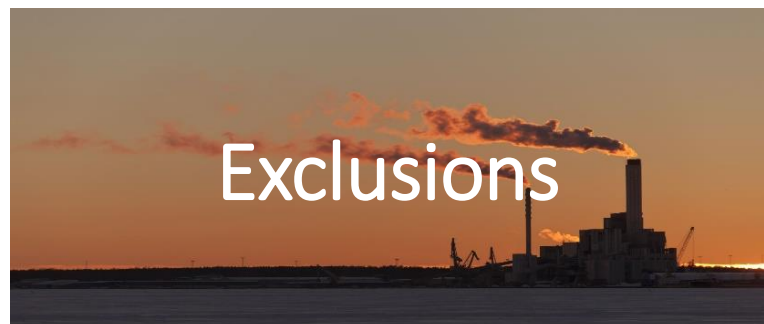
ESG considerations are embedded in the whole investment process for the whole portfolio.



Support & encourage companies to improve their ESG practices



For example, align the portfolio carbon footprint with the net-zero commitment.



Exclude a small number of non-ESG aligned sectors & companies from the portfolios.



Financing the green projects and transitions.



Investments with a clearly defined Sustainable Development Goals ("SDG")

### 3. ESG integration in AXA HK



Direct Environmental Footprint Management		AXA Group	AXA HK & Macau
<b>What are we aiming at?</b> The Science Based Target Initiative (“SBTi”) Targets	Near Term	-20% between 2019-2025	
	Medium Term	2030 target being discussed	
	Long Term	Net Zero by 2050	

**Note:** as an exemplary company, above targets refer to carbon footprint reduction of AXA’s own operations (energy, car fleet, business travel, IT equipment manufacturing and services).

Carbon Intensity (tCO2 / EV m€)		AXA Group	AXA HK & Macau
<b>What has already done?</b>	Dec 2019 (baseline)	66	xxx
	Dec 2020	70	yyy
	Dec 2021	47	zzz
	Δ% 2019	-29%	-z%
<b>What has happened in 2022?</b>	Oct 2022 (latest available)	Stay tuned	jj -j%

**Note:** as an investor, the target of carbon footprint reduction of AXA’s portfolio (general account assets) is -20% between timeline 2019-2025.

Green Assets		AXA Group	AXA HK & Macau
<b>What has already done?</b>	Dec 2020	USD 19 bn	USD xxx bn
	Dec 2021	USD 26 bn	USD yyy bn
<b>What are we aiming at?</b>	By 2023	EUR 26 bn = USD 29 bn	USD zzz bn

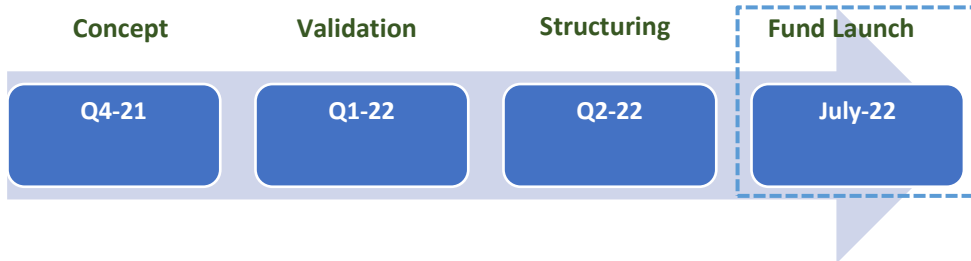


## 4. Case study:

# *AXA Natural Capital Fund*



## 4. Case study: AXA Natural Capital Fund



**Portfolio Construction => targeting 8-10% net IRR**

- The next major impact investment for AXA is the **Natural Capital Fund**:
  - €100m transferred from AXA C&B Fund, plus,
  - €400m new commitments.
- €500m capital committed to natural capital is included within €1.5bn forestry allocation, together enabling 25m tonnes CO2 avoided/removed per year.
- Majority of the CO2 avoided / removed KPIs will be generated through natural capital projects in emerging markets.
- **AXA HK** has made €50m total commitment to Natural Capital Fund, to be drawn over next three years.



# 4. Case study: AXA Natural Capital Fund

Carbon REDD+ Project – a typical financing structure

## Summary:

- The capital is financing activities which ensure **vulnerable / high value natural habitats are protected from deforestation**
- The success of these activities are quantified **through the issuance of carbon credits**
- **Carbon credits are sold** to external buyers via the carbon market to repay the financing & upside shared between stakeholders

**Buffer Zone** financing used to address drivers of deforestation by:

- Providing farmers with technical assistance & inputs for agroforestry
- Strengthening the value chain e.g. processing
- Engaging with the wider community on education / healthcare etc.

By encouraging and financing activities in the buffer zone, communities are less likely to pursue deforestation

Material activities and benefits in the community contribute to the quality of a project and its success

NGO / Cooperative / Developer

Buffer Zone

Natural Protected Areas



Carbon Credits

## Transaction Structure:

- Bond issuance / loan structure with carbon credits as security
- Coupon fixed interest (5-8%)
- Free cash flow share return stream (10-20%)
- Option for adding elements of mezz / project equity structures depending on optimal project design
- 7-15 years depending on activity



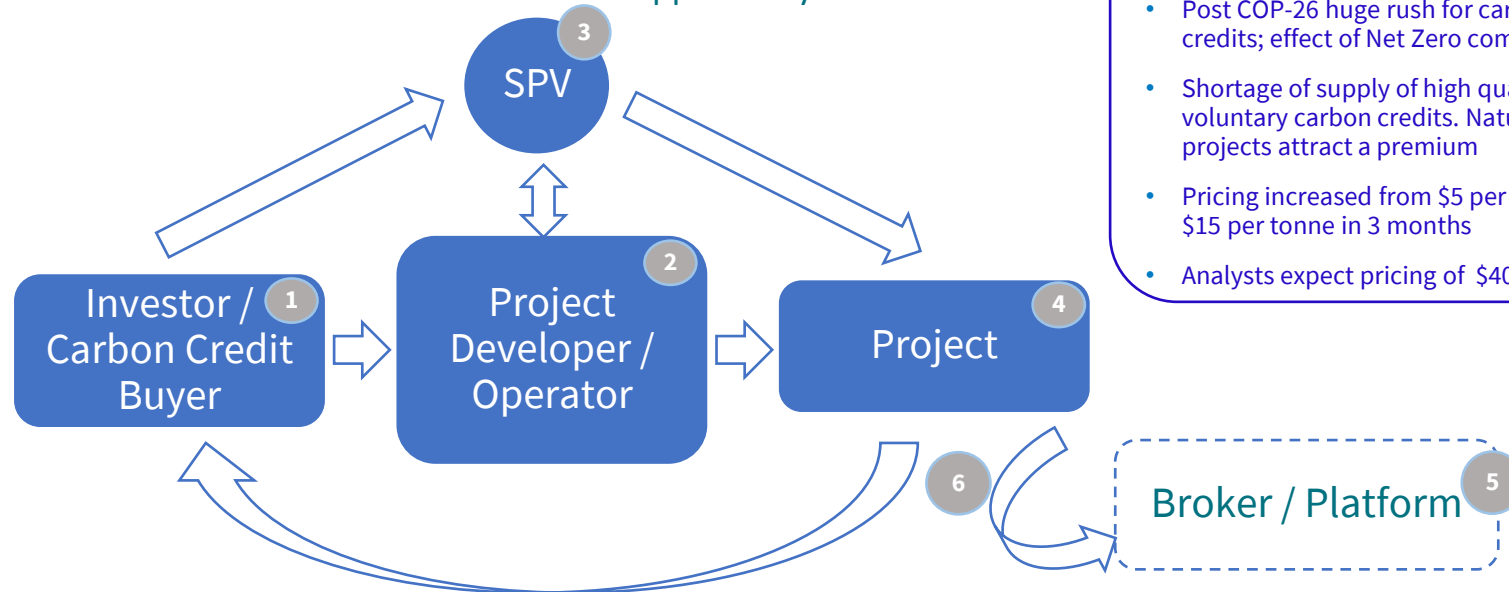
**Natural Protected Areas** financing used to improve forest conservation by:

- Surveillance & security
- Facilitating biodiversity research and ecosystem protection
- Preserving ecosystem services and habitats
- Protecting endangered species
- Supporting local livelihoods

The success of protecting the natural area is assessed independently, and carbon credits are issued based on performance

## 4. Case study: AXA Natural Capital Fund

AXA present across the carbon credit value chain => creates an exclusive opportunity



### Carbon Market Update:

- Post COP-26 huge rush for carbon credits; effect of Net Zero commitments
- Shortage of supply of high quality, voluntary carbon credits. Nature-based projects attract a premium
- Pricing increased from \$5 per tonne to \$15 per tonne in 3 months
- Analysts expect pricing of \$40 by 2030

#	Description
1	AXA Impact Fund managed by AXA IM
2	Local project developer / operator
3	Financing vehicle for the project
4	Underlying natural capital project
5	Broker / Platform
6	DECISION TO BUY / OWN OR SELL <ul style="list-style-type: none"><li>• New Carbon Warehouse<sup>1</sup> to manage flow</li></ul>

- **Financing and purchasing credits directly can result in:**
  - Reduced cost through improved pricing and secure volumes through negotiated offtake agreements
  - Improved communication narrative
- **This improved access is only possible investing directly (not through funds)**
  - Allows bespoke project terms including options to buy future volumes or exclusivity to sell through certain channels e.g. specific broker platforms
- **AXA Impact Funds has acquired** a leading European Carbon Broker and Consultancy platform
- Financing the project directly and owning a broker platform gives optionality whether to own or sell credits
- Synergies on access to new projects, strategic value for AXA:
  - Ability to offer offsets to clients
  - New product design

1. New vehicle being considered to manage flows of carbon credits to sit within the impact fund

# 4. Case study: AXA Natural Capital Fund

Snapshot as of June 2022

Pipeline  
>500 m\$



## Forest Carbon Works

Protecting family-owned forests in the US

- **Exposure:** Equity
- **Board Seat:** Yes
- **Ownership:** Significant minority
- **Impact activity:** preventing loss of forest coverage
- **Impact KPIs:** Carbon credits; ha protected
- **Exit:** in Q1 2022 3.18x / 172% IRR



## Fundaeco

REDD+ project in Guatemala

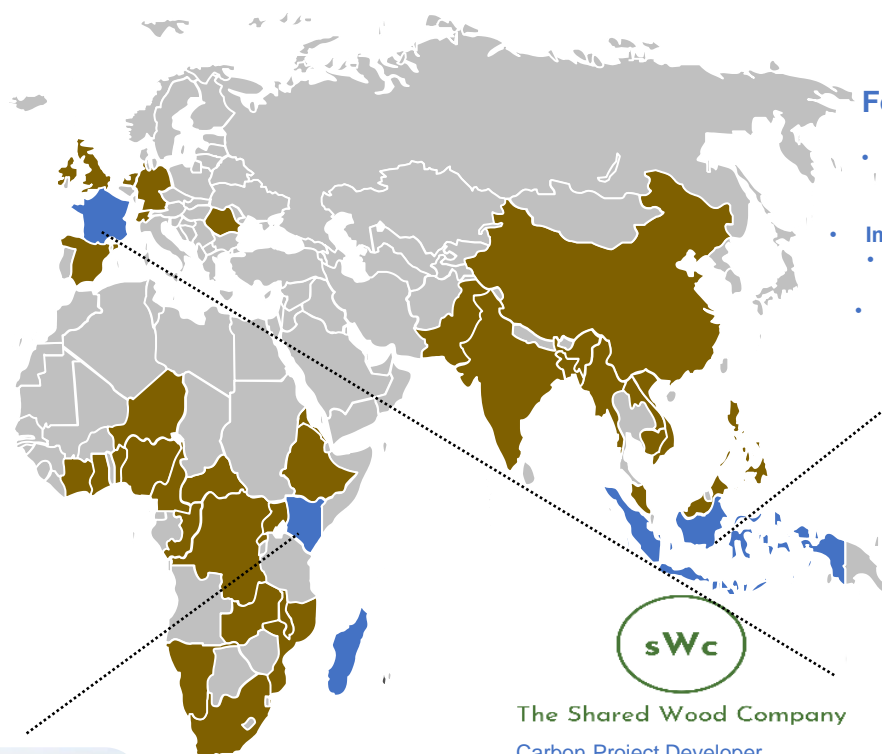
- **Exposure:** Carbon-backed bond
- **Ownership:** 100% of instrument
- **Impact activity:** avoiding deforestation
- **Impact KPIs:** Carbon credits; ha protected



## Komaza

Micro-forestry company in Kenya

- **Exposure:** Equity
- **Board Seat:** Yes
- **Ownership:** Significant minority
- **Impact activity:** afforestation
- **Impact KPIs:** Carbon credits; ha planted



## Forest Carbon Indonesia

Forest and peatland conservation

- **Exposure:** Equity & Project debt facility
- **Board Seat:** Yes
- **Impact activity:** wetland restoration
- **Impact KPIs:** carbon credits; ha restored
- **Size:** \$100m financing exclusivity



## The Shared Wood Company

Carbon Project Developer

- **Exposure:** Equity
- **Board Seat:** Yes
- **Ownership:** Significant Minority
- **Activity:** \$100m exclusive finance



Carbon Solutions Provider

- **Exposure:** Equity
- **Board Seat:** Yes
- **Ownership:** Majority
- **Activity:** Carbon offsetting

- Existing AXA IM portfolio
- Experience of AXA IM value chain

