AXA Investment Managers

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Putting ESG to work: Integration into platforms

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Chief Investment Officer, AXA IM Core

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Putting ESG to work

Chris Iggo
Chief Investment Officer, AXA IM Core

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 environmental, social and governance (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 approach 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 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 the most focused stream of our stewardship strategy, 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.

The following sections look at our broad approach and our progress in 2022, before detailing our processes for specific investment platforms.

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. 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); [1] 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)

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 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.

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.

In more focused strategies we aim to hit clearly defined ESG targets, relying on proprietary Impact Qualitative Analysis frameworks, while simultaneously delivering financial returns.

[1] 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).

This framework is complemented by:

- **In-house ESG research**[2] on key themes including climate change, biodiversity, gender diversity and human capital, cyber security and data privacy as well as on health and nutrition, 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 key performance indicators (KPIs):** Investment teams have access to a wide range of extra-financial data and analysis on ESG factors, across asset classes. More specifically, a package of environmental KPIs is available in the front office tool to allow the full understanding and analysis at issuer level. This leverages our relationship with providers such as MSCI, Trucost, and Beyond Ratings

- **Stewardship strategy:** We adopt an active and impactful approach to stewardship[3] (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.[4] Monitoring is carried out as follows:

- The portfolio management teams are primarily responsible for the implementation of policies and commitments. Funds' specific responsible investment objectives are reported in monthly Investment Oversight Forums. Following ban-lists and/or eligible universe updates, portfolio managers divest from issuers taking into account both a client's as well as 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 Responsible Investment (RI) policies and ESG Standards 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

- The risk management department assesses the likely impact of sustainability risks on the products' return and classifies them within three levels: Low / Medium / High[5]

- 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 that are 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.

[2] Sustainability, AXA IM, retrieved February 2022.
[3] Stewardship & Engagement, AXA IM, retrieved February 2023.
[4] Such rules are described in the regulatory documentation of the products.
[5] Sustainable Finance, AXA IM, retrieved February 2023.

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 continuously 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 that 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 2022 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, HR, 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. We are progressively integrating the identification of ESG-related risks withing our Emerging Risk Management Framework. As such, in 2022, risks related to ESG, 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.

Equities - Fundamental

We believe the consideration of non-financial factors, as seen in AXA IM's ESG priorities, puts us in a far better position to deliver on our aim of providing sustainable equity returns over the long term. There are four key reasons for this:

- 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 governance, environmental and social impacts
- They can potentially help improve companies' performances by informing an active dialogue around the management of ESG issues, thereby limiting our ongoing exposure to risks.

How we achieve this

We take a 360° approach to company evaluation through three steps:

Quantitative
First, we incorporate ESG scores into our front-office tools, internal research models and risk reports. In addition, investment professionals have access to voting/AGM results, carbon emissions data, as well as to a wide range of ESG-related KPIs from third-party data providers, comparative tables by sector and details of alignment with the UN SDGs.

Depending on their level of ESG integration, we manage equity portfolios with ESG quantitative objectives incorporated into the decision-making process, from ESG score outperformance to specific objectives on ESG-related metrics, as outlined in their regulatory documentation.

Qualitative
It is our intention to go beyond pure quantitative scoring and to gain a detailed and nuanced understanding of how a company is intending to deal with its ESG challenges. This type of deep-dive qualitative focus forms the second pillar of our investment approach. It is our goal to incorporate ESG risks and opportunities more systematically into our portfolio construction and modelling as part of our risk/return/fair value assessment.

This type of analysis is undertaken when we visit companies and meet them face-to-face to discuss and understand how their ESG and sustainability policies and practices are supporting long-term strategic goals. The responsibilities of portfolio managers and ESG analysts include the consideration of ESG factors at corporates and the proactive monitoring of related risks and opportunities ahead of portfolio construction. We also analyse many securities not covered by ESG scoring to complement and expand the available research.

Beside ESG qualitative analysis, a dedicated team of analysts within the research department conduct impact analysis relying on a five-pillar proprietary framework.

Engagement and voting

We see ourselves as key influencers in promoting better and more responsible corporate behaviour and disclosure. Our engagement with corporate management teams is central to genuine active asset management. This dialogue on ESG integration expresses our conviction as long-term responsible investors and seeks to avoid negative issues which can damage portfolio returns. It also aims to influence company management teams to build resilience by taking the right steps to enhance their sustainability profile, disclosures and practices.

In 2022, we sought to enhance our engagement strategy and governance by distinguishing more clearly between regular dialogue conducted with investee companies around their sustainability practices (referred to as "sustainability dialogue") and active engagement with specific, identified objectives (referred to as "engagement with objectives"). We feel this allows us to better incorporate and track the many ongoing contacts that our portfolio managers have with companies. These contacts cover a wide range of subjects, including business strategy, competitive dynamics and sustainability topics such as governance.

In addition to conducting engagement activities, the equities investment platform – through representatives – participates in dedicated AXA IM Responsible Investment Governance forums, including the ESG Monitoring & Engagement Committee to express views on engagement priorities and objectives.

The definition and implementation of our voting policy is overseen by a Corporate Governance committee which is attended by representatives from AXA IM's RI Coordination & Governance and ESG Research teams and some members of the AXA IM equities platform, as well as being in close partnership with the investment teams.

Equities - Fundamental

Strategy Focus

Our social progress strategy adopts an approach that has been specifically designed to seek a direct and positive effect on society and help shape a more sustainable future for the world. It seeks to do this by investing in companies that address a range of social needs – from the most basic to the more advanced needs which sustain human progress. As such, the strategy typically invests in listed companies which have demonstrated a strong impact and a clear alignment with social UN Sustainable Development Goals (SDGs).

The strategy focuses on several challenges where the scale of unmet needs creates opportunities for companies to improve outcomes for underserved people. Investment areas may therefore include affordable housing, financial inclusion, access to healthcare solutions, nutrition, safety, education and entrepreneurship.

When defining the investment universe for the strategy, we apply a socially responsible investment (SRI) 'selectivity' approach. We exclude from the available universe companies which are in the bottom 20th percentile, using a combination of external and internal social UN SDG-alignment data. We also apply AXA IM's qualitative proprietary impact framework to evaluate the alignment of company activities to UN SDGs, and then to quantify their degree of impact towards social issues.[6]

Finally, to comply with France's Label ISR guidelines,[7] the SRI approach is supplemented by a commitment of the fund to outperform its benchmark on two KPIs – carbon intensity and water intensity. On top of AXA IM's sectoral 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.[8]

By adding environmental objectives to this social-focused strategy, we seek to ensure the social objective does not come at the expense of environmental performance.

Using an unconstrained, multi-cap strategy, we aim to invest in publicly listed companies in developed and emerging markets which offer high growth potential through a focus on providing services across a range of social needs.

[6] Driving Impact in Listed Assets Investments, AXA IM, retrieved January 2023.
[7] Les Critères d'Attribution du Label, Le Label ISR, retrieved January 2023.
[8] The Quality Standard for sustainable investing, Towards Sustainability, retrieved January 2023.

Case Study

In 2022, we engaged with the Australian biotechnology company CSL Ltd. which provides life-saving therapies for rare and serious diseases as well as vaccines for influenza.

Our objective was to encourage the company to progress from ad-hoc donations of products to more long-term strategic initiatives designed to expand access to important treatments in poorer areas. We also wanted the company to strengthen governance around access, to introduce incentivised targets for management as well as new KPIs related to access.

Previously, the company's donations had been ad-hoc, based on product availability and primarily donating products that were close to expiry. The company recently announced a new five-year commitment to the World Federation of Hemophilia to donate 100 million units each year of new products to treat haemophilia A, in addition to ad-hoc donations. We encouraged the company to make more of such commitments as well as to deliver on more structured donation programmes of products that are not close to expiry.

We discussed introducing a 'patients reached through assistance programmes' or 'lives touched' KPI to measure the success of access initiatives. CSL explained that while this is complex due to the nature of treatments, working on providing this information was a priority. They are also looking into disclosures regarding the number of patients with access to treatment through insurance.

Regarding governance, CSL confirmed that new targets are being decided internally and remuneration targets for management are likely to be introduced next year.

We will continue to follow-up with CSL's Head of Social Impact to fully understand their progress on donation and disclosure.

Equities - Equity QI

We believe that ESG insights enhance our traditional financial analysis. Our research shows that ESG data can help identify potential risks and opportunities beyond technical valuations, allowing us to better understand the possibility of reputational damage and identify how firms are adapting to meet new market challenges.

At Equity QI, AXA IM's quantitative equity investment division, ESG is not just an additional factor to consider at the portfolio construction stage. Our research into the link between ESG information and the fundamental drivers of long-term risk and return has been coded into our proprietary factor models.

We believe that integrating ESG information complements our fundamental insights and may help guide our opinion on the economic worth of a stock. Accordingly, we believe the thoughtful use of ESG insights can help investment outcomes, reduce risks and potentially improve long-term returns for our clients.

How we achieve this

Our investment approach enables us to systematically incorporate non-financial information directly into our models alongside traditional financial data. We take data from a variety of external vendors and we incorporate the ESG scoring framework that is maintained centrally and used across AXA IM's investment teams.

Once the data is in our system, we can work with it in a variety of ways, including research, analysis and reporting. However, using this information to help construct portfolios ensures that ESG data directly contributes to investment outcomes.

We add ESG scores and KPI targets alongside our traditional alpha and risk measures when we optimise portfolios. This approach ensures that in our systematic construction of portfolios, and when faced with two stocks of identical profile from a traditional investment perspective, our optimiser will favour the one with the highest ESG rating, all other considerations being equal.

Beyond optimisation, our research into the links between ESG and the fundamental drivers of long-term risk and return has led to innovative enhancements to our stock selection models. For example, we found that boardroom diversity influences future profitability and, as such, we explicitly consider diversity in our proprietary model to measure earnings quality.

We believe our approach offers the potential to build portfolios with a better-than-benchmark ESG score and lower carbon/water intensity in a consistent and repeatable manner.

Finally, when constructing portfolios with specific SDG contribution targets, access to a database which provides UN SDG scores on a large universe of stocks helps us to target specific SDGs.

Strategy Focus

Our climate-focused strategies deploy additional data and processes to balance the objectives of decarbonisation today with investing in the global transition to a low-carbon economy. When working with clients who wish to address climate change through their investments, we have come across a common challenge: An ambitious target on current portfolio carbon intensity reduction may limit exposure to companies which are directly enabling the global transition through the products and services they offer, or to transitioning companies within high-stake industries. This is because these companies often contribute a high proportion of the world's carbon emissions.

Our climate focused strategy manages this complex trade-off by using a combination of divestment and investment allocation to the providers of climate solutions within our optimisation framework. This should allow us to reduce portfolio carbon intensity whilst actively investing in companies that are contributing to the mitigation of climate change and helping drive the shift to more sustainable energy use through their products, services and technologies.

We believe that aligning portfolio allocation with both reported progress and companies' commitments to reach net zero sends a strong message to the companies that are accelerating the transition to a low-carbon economy – which is also an important investment consideration for us and our clients.

Finally, our carbon offset strategy launched in 2021, that builds on this, further aims to compensate for the emissions owned by the portfolio which cannot be eliminated today. After the investment process has reduced portfolio carbon intensity as far as possible (through divesting from the worst polluters in preference for companies with lower carbon intensity when constructing the portfolio), the equivalent number of carbon contracts are retired. These contracts finance hand-picked projects which aim to preserve the environment and target multiple UN SDGs, providing another tool which we can use to have a direct impact on climate change. Our clients are demanding more action on climate, and we will continue to evolve our offering to meet these needs.

Fixed income

Effective fixed income portfolio management seeks to maximise risk-adjusted returns. Given the asymmetric risk profile of this asset class, AXA IM's fixed income investment teams believe limiting downside risk is a key driver of long-term performance – and that ESG plays an important part in that.

Our credit analysts use ESG to identify material concerns that could impair the credit quality and long-term sustainability of issuers in our markets. This process helps to identify those risks most relevant to credit investors, which should in turn help to minimise downside risk. Analysts and portfolio managers incorporate a wide range of ESG factors into credit analyses, focusing on those most relevant to a given credit.

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.

Our investment process applies AXA IM sectorial exclusion policies as well as AXA IM ESG standards exclusion policies to ESG integrated and ACT funds, i.e. those funds classified as Article 8 and Article 9 in the scope of the EU's Sustainable Finance Disclosure Regulation (SFDR). On the product side, we expanded our range of ACT funds in 2022 with the launch of green and social bonds strategies designed to finance projects contributing to the UN SDGs.

A fixed income Head of Sustainability participates in multiple AXA IM RI committees and collaborates closely with the RI expert teams on a regular basis.

How we achieve this

- **ESG analysis** is embedded into our active fixed income research process and credit analysts incorporate ESG analysis in their internal research reports. These reports highlight the relevant ESG strengths and weaknesses as well as an issuer's performance on specific issues. Analysts also comment on actions that the issuer is taking to mitigate ESG weaknesses and its targets to improve ESG performance. We also benefit from impact analysis conducted by a dedicated ESG & Impact Research team at corporate level using a five-pillar proprietary framework

- Portfolio managers and analysts have access to multiple sources of **ESG data** (internal and third-party). Among the key ESG topics, risks and key performance indicators (KPIs) recently highlighted were greenhouse gas emissions and details of any issuer plans and targets to reduce those emissions, as well as water intensity, labour relations and board diversity.

Corporate ESG analysis

Within our credit process, analysts also include a qualitative ESG template in their models, assigning a view with respect to company management and momentum around ESG issues relative to the industry and to a company's peers. In the template, credit analysts highlight ESG strengths as well as concerns and mitigating actions, ESG KPIs, and comments on governance structure.

Within both credit and sovereign research, the key ESG topics, risks, and KPIs highlighted are at the discretion of the analyst, allowing them to select topics and risks most relevant to the issuer. Each credit and sovereign analyst has been trained on ESG issues relevant to their assigned sectors or regions, drawing from several third-party sources, including the Sustainability Accounting Standards Board (SASB), TCFD, MSCI, Sustainalytics and others including rating agencies and sell-side research.

Our research teams, including credit analysts, use a framework to assess the transition plan of investee companies, in line with our net zero commitment and AXA IM's own climate strategy. This framework, launched in 2022 and progressively ramped up over the year for equity and fixed income issuers, aims to assess the maturity of corporates' climate strategies. It uses quantitative information, including input from the Science Based Targets initiative (SBTi) and the Transition Pathway Initiative, among others, combined with qualitative analysis to confirm the credibility of the strategies. In particular, it leverages the principles of the Net Zero Investment Framework coordinated by the Paris Aligned Investment Initiative.[9]

With the support of AXA IM's Head of Climate and the Sustainable Investment Solutions team, the credit research team review past decarbonisation performance, current greenhouse gas emissions, and forward-looking measures like short- and mid-term targets, as well as reviewing capital allocation and spending in the context of sectoral and geographical characteristics.

[9] The Paris Aligned Investment Initiative is a collaborative investor-led global forum enabling investors to align their portfolios and activities to the goals of the Paris Agreement.

This qualitative analysis aims to help us identify both leaders and those companies that are lagging or have not provided sufficient information on their trajectory to reach net zero. Our responsible investment professionals then engage with a selection of these companies to support the strengthening of their climate strategy to achieve a robust transition path.

We also continue to increase engagement and sustainability dialogues in regular financial-oriented discussions with companies such as roadshows or earnings conferences.

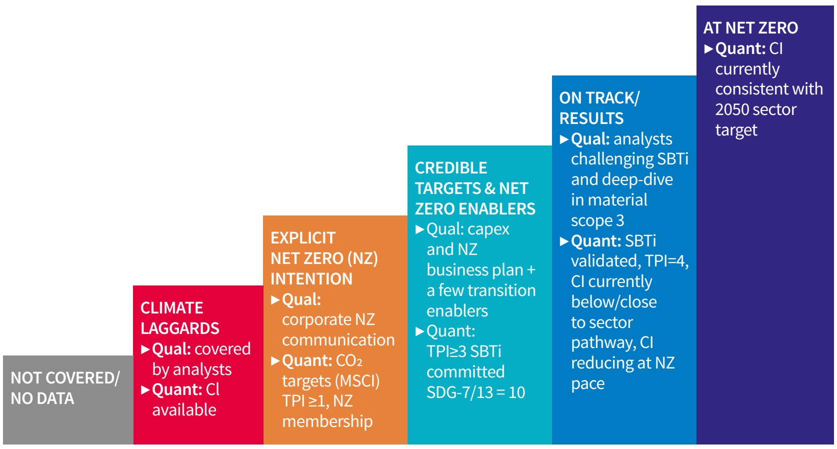
Case Study

Our US credit team annually defines a focus list of companies, prioritising issuers designed ‘red’ or ‘orange’ by our proprietary climate colours framework as described in AXA IM’s TCFD-Article 29 Report. They accounted for nearly half (48.7%) of engagements conducted over the course of 2022.

In 2022, the focus list included a US-based specialty retailer of automotive aftermarket parts, assigned a red climate score by our framework. While disclosing detailed environmental initiatives in its sustainability report, the company has not yet measured the carbon footprint of its products or set specific emission reduction goals, giving us serious concerns around its willingness to tackle climate-change related risks.

During the engagement, the company confirmed its plan to set goals for Scope 1, 2, and 3, both short and long term, and release them in its 2023 sustainability report. In addition, the company committed to set targets in line with the Paris Agreement, using SASB frameworks, future verification by the Science-Based Targets initiative (SBTi), and a potential participation in the Carbon Disclosure Project.

We plan to follow up and assess the stringency of the target published in August. At that point, we may potentially be able to upgrade the company’s colour in our climate colour framework.



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.

Fixed income

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.[10]

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 deep-dive on sovereigns' public spending programmes around sustainability and to better understand the ESG risks of a country. In 2022, we had 24 engagements with government issuers.

Vision 2023

In 2023, we will continue working on the deployment of AXA IM's climate strategy and net zero objectives across investment strategies, to bring all assets under management into alignment with the Paris Agreement goals. Credit analysts will continue to support investment teams in their decision-making processes, having reinforced their climate analysis framework for corporates, leveraging the Paris Aligned Investment Initiative.

We aim to enhance our stewardship and engagement practices and techniques with bond-only issuers, joining industry groups which are also working on this topic.

Strategy Focus

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. Our portfolio managers invest only in green bonds that form part of the eligible universe set out by AXA IM's RI experts, using a proprietary analysis framework for green, social and sustainability bonds (GSSBs).[11] The new strategy has been awarded with the French sustainability label Greenfin and the Belgian 'Towards Sustainability' Label.

[10] The European Environment Agency's water exploitation index measures the mean annual total demand for freshwater divided by the long-term average freshwater resources.
[11] Green, Social and Sustainability Bonds: An update on our assessment framework, AXA IM, September 2022.

Case Study

Issuances of green or social bonds are a good opportunity to assess a country's sustainability strategy. In May 2022 we met with representatives from the Austrian Treasury to discuss its sustainability strategy and inaugural green bond transaction. Austria is one of the highest-rated countries in terms of ESG ratings. In addition, the country has established what we consider robust and ambitious climate and environmental policies.

Austria is targeting a 48% reduction in greenhouse gas (GHG) emissions by 2030 compared to 2005, which is more ambitious than the EU 'Fit for 55' target.

We also note that the country achieved a 20% reduction in GHG emissions between 2005 and 2020, when its GDP grew by 14%, showing its ability to decouple carbon emissions from economic growth.

The country aims to cover 100% of its electricity needs with renewables by 2030, and to reach climate neutrality by 2050. Of note, these objectives are well-anchored in Austria's legislation. We also note other policies and objectives related to climate change adaptation, biodiversity and land use, and transportation, demonstrating a comprehensive environmental strategy at country level.

Lastly, eligible expenditures under the green bond framework represent 3.4% of Austria's total government expenditures and 1.3% of its GDP, which are among the highest figures for sovereign issuers.

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 54 GSSB issuers in 2022. 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 in 2022.

We also had discussions with existing GSSB issuers to follow up on their promises at the time of issuance. As part of our approach to the GSSB market, we want to make sure that issuers publish impact reporting and effectively allocate the proceeds to green and social projects. All in all, we were satisfied with GSSB issuers' reporting and actual proceeds allocation.

Another key topic of discussion with GSSB issuers in 2022 was around the inclusion of the EU Taxonomy and of the upcoming EU green bond standard in market practices.[12] 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 included the EU Taxonomy technical criteria in their green bond frameworks.

We also asked GSSB issuers about how they integrate the Taxonomy's principle of "do no significant harm" (DNSH) and minimum social safeguards (MSS) into their frameworks. While we see more and more issuers aligning with the Taxonomy's technical criteria, the picture is very different when it comes to DNSH and MSS. Issuers are struggling to find a proper way to integrate these – which is understandable given the absence of a comprehensive and recognised definition of these criteria. This will be one of our engagement priorities with GSSB issuers in 2023.

In 2021, 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 2022, which allowed us to better identify good practices and clarify our expectations with this market.

Bondholder meetings

In 2022, AXA IM voted at a total of eight bondholder meetings, on 11 resolutions. Four of them were 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 life of 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. The ESG fixed income analyst is contacted by the originating bank in charge of the reclassification of the bond, will review the proposal (via the bond's framework), and will then issue an opinion.

As reclassifications are becoming more frequent, 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 2023 in order to define best practices.

[12] 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.

Case Study

In September 2022, we had a call with Majid Al Futtaim (MAF) – a leisure and events company based in the United Arab Emirates (UAE) – during its green bond roadshow. We spoke to the company's chief financial officer as well as representatives from the funding and sustainability departments. We wanted to clarify the company's position on the controversial Ski Dubai and Ski Egypt assets – some of our clients had raised a concern around these projects and potential 'greenwashing' given MAF is a green bond issuer.[13]

We first asked MAF to explain how these assets – two indoor ski resorts located in desert areas – are considered as part of the company's climate and environmental strategy, which at first sight looks in our view quite ambitious for a UAE issuer. MAF explained that its whole portfolio has been reviewed and validated by the SBTi as part of the company's GHG reduction target. It also stated that it provides transparent ESG data on Ski Dubai and Sky Egypt and that Ski Dubai has received an LEED certification.[14] We told MAF that while we recognise the transparency and ambition of its overall climate strategy, we still considered that these assets appeared problematic from a climate change perspective.

We also wanted to dissuade MAF from developing any similarly contentious projects in future. MAF has made a commitment in this respect, but we have some scepticism as we do not consider it a sufficiently clear commitment, or backed up by recent actions (the company has already built two indoor ski resorts in recent years). In addition, a review of MAF's green bond reports found that Ski Egypt was funded by green bonds as part of the Mall of Egypt project, which in our view did not meet the green bond issuance standards. Given our belief that the development of such projects does not form an appropriate part of climate strategy, we decided to divest from MAF's green bonds.

Vision **2023**

In 2023, we will continue our work on GSSBs, and will leverage additional data points to guide our engagement with issuers, including in relation with the EU Taxonomy in this perspective.

Meetings with GSSB issuers will continue to discuss their frameworks and ESG strategy and to make sure any GSSB we invest in complies with our eligibility criteria. A deeper engagement programme is planned with existing green bond issuers, where we will consider whether their climate commitments and strategies are sufficient with regards to our assessment methodology.

In addition, we will have the same kinds of discussions with SLB issuers to ensure compliance with our eligibility criteria.

We will also continue to review opportunities to influence the development of the SLB market and framework with the objective of encouraging quality and integrity on this market.

We will update our GSSB and SLB assessment frameworks in 2023, so that our expectations, requirements and eligibility criteria are publicly available to issuers and other market players.

Finally, looking at engagement in fixed income markets beyond GSSB, we plan to review in more detail how we can press for change as a large fixed income investor, considering the use of escalation techniques specific to this asset class.

[13] Greenwashing refers to claims made by a company or country about environmental ambitions or principles which are not carried out in practice.
[14] LEED (Leadership in Energy and Environmental Design) is a widely used green building rating system.

Multi Asset

As our clients demand more sustainable returns, the multi-asset platform continues to put an increased focus on non-financial factors by expanding the use of our internal ESG framework to better address risks and target sustainable returns.

The multi-asset platform has actively integrated non-financial factors into its investment process over the past year. As such, we have leveraged the progress on ESG integration within the equity and active fixed income platforms as well as emphasising ESG within our multi-asset strategies through two major pillars:

- **Technology and quant solutions:** The multi-asset team uses AXA IM's ESG scoring framework to fully cover our equity and fixed income asset classes.[15] These scores are made available to portfolio managers through our front office systems as well as ad hoc simulations. Our portfolio managers can thus integrate this data into their decision-making tools as well as access online tools and detailed ESG reports on a growing number of our portfolios and mandates.
- **Qualitative input:** Multi-asset portfolio managers use ESG research provided by the credit team and by ESG and impact analysts. We believe that ESG factors can affect the financial performance of securities and by integrating ESG factors in a significant way within their investment process, multi-asset portfolio managers can leverage this analysis to prioritise investing in securities which deliver good ESG quality or a substantial positive impact

The number of funds which put non-financial criteria at the heart of the multi-asset investment process has expanded over the past year. Five additional funds obtained the coveted French ISR label in 2022 which translated into about €5.5bn of assets under management within our SRI labelled funds – a 43% increase over the past year.[16] The main ESG indicators which these funds have chosen to outperform include the environmental metric of carbon intensity, which must track below that of the fund's benchmark or investment universe. Other funds focus on water intensity, or a diversity-oriented metric such as the percentage of women on the board of directors, which must also be above that of the fund's benchmark or investment universe.

The multi-asset platform is also actively involved in AXA IM's focus on quality engagement. To encourage companies to adopt better and more responsible corporate behaviours and disclosure practices, we participate alongside equity and fixed income in sustainability dialogues with corporate management. We also access the results of engagements with objectives, conducted by responsible investment professionals on specific ESG themes. This input informs our investment views and allows us to monitor progress made on certain harmful issues, which could potentially weigh on future performance, as well as to assess the actions taken to enhance sustainability profiles and practices. Finally, we give our views on the definition of engagement priorities and progress through our participation in AXA IM RI Committees.

[15] Building a robust ESG scoring model for responsible investors, AXA IM, September 2022.
[16] Figures as of end-2022.

Case Study

Clicks Group is a South African pharmacy that we think has a positive contribution to SDG 3 (Good Health and Well-being) as it derives about two-thirds of its revenue from the distribution of medicines in Southern African countries through its extensive pharmacy network (+800) and wholesale distribution business.

We met with the company to gather information on how it improves access to health services and medicines in South Africa as well as to gather information on other issues like black empowerment, diversity carbon footprint and sustainability reporting.

Clicks Group is a partner to the South African government for a range of ongoing initiatives. We asked about its possible role in the national health insurance scheme which is currently in development and the company stated that it would likely be a strategic partner to the government. However, the company was also convinced that initiatives in the private sector that aim to expand access to affordable healthcare were more likely to be more rapidly implemented and fruitful.

The issue of black economic empowerment was also discussed with the company. In 2021, the company reported that 95% of the employees within its workforce were black, however, in top and senior management, only 34% of employees were black. Clicks Group acknowledges this diversity gap and attributes it to recruitment difficulties. It is also looking into internal training that would enable upward mobility for black employees and reports progress at middle-management levels. The group has reached Broad-Based Black Economic Empowerment (BBBEE) Level 4, which is an improvement from 2019 (Level 5). In addition, the company intends to achieve $400m procurement expenditure to black-owned businesses by 2025, including $250m to black female-owned suppliers.

We also made recommendations to the company about social KPIs to better assess its contribution to SDG 3. Suggested metrics include the number of patients treated in clinics, the number of patients served in pharmacies, and the number of stores in lower-income areas. We will pursue follow-up discussions on the above issues as well as on the company's progress around carbon emissions, science-based targets, and producing a carbon neutrality roadmap.

AXA IM CORE -
ESG INTEGRATION INTO PLATFORMS

Strategy Focus

Within our Multi Asset Optimal Income range, we manage a strategy that 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.

It seeks to invest in global 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 green, social and sustainability bonds (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.[17]

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

Case Study

US-based Ecolab provides water, hygiene and infection prevention solutions and its products and technologies are also used in water treatment, pollution control, energy conservation, refining and other industrial processes. Ecolab's products and services allow its customers to reduce their environmental footprint, especially in terms of water usage. As such, we believe the company contributes towards SDG 6 (Clean Water and Sanitation) as well as SDGs 3 (Good Health and Well-being) and 13 (Climate Action).

Given the sensitive nature of its business, we included Ecolab in our engagement list for the fourth quarter 2022 with a focus on biodiversity. We discussed the company's approach to biodiversity and the problems it experienced in this new and complex field of ESG action. The company has already formulated its first goals regarding climate, and particularly water, as key aspects of its biodiversity approach (15 watersheds identified as priorities in terms of its biodiversity action).

However, Ecolab understands that water and climate are only the first step and it needs to develop a more comprehensive and biodiversity-specific approach. We therefore discussed its first biodiversity goals as well as new developments including participation in a Taskforce on Nature-related Financial Disclosures pilot scheme. Based on this exercise, Ecolab hopes to publish a new biodiversity position in its next report in June 2023. We also discussed the company's management of hazardous substances.

We will follow-up with Ecolab on developments regarding its biodiversity strategy in 2023, after the publication of its annual report. We will also continue our discussions with the company on the matter of hazardous substances management, and we note that a new collaborative engagement supported by the International Chemical Secretariat may offer an opportunity to develop that. In our view, the company has had a robust chemicals management system in place for a number of years, with a goal to bring chemicals of high concern down to 0% — although there is not currently a target date for this goal.

Real Assets

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 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 are able to 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 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.

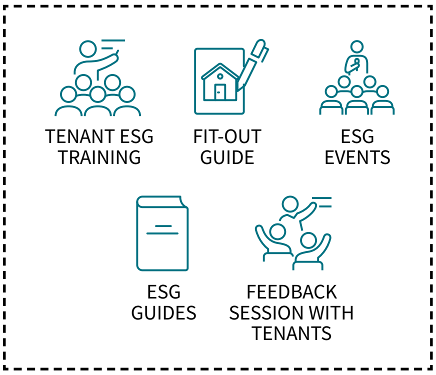
We acknowledge the scale of this challenge and recognise that success will only come through active collaboration and partnership. Accordingly, through 2021 we undertook a series of structured discussions across our investment platforms to encourage companies, borrowers and tenants to consider and disclose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

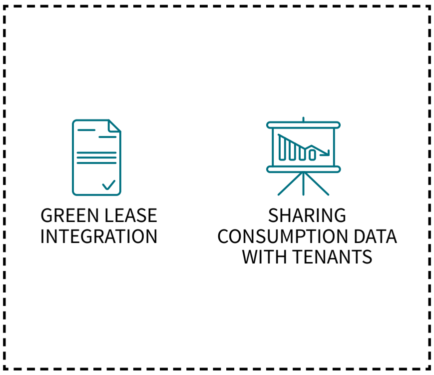
Real Estate Equity

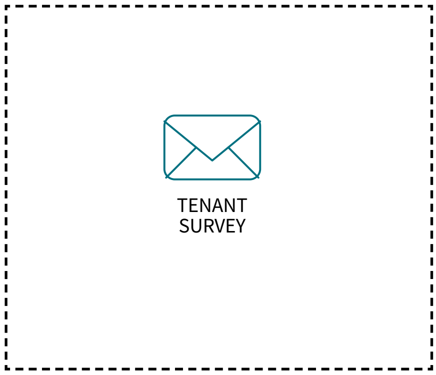
As users of the assets, the tenants of the buildings under management are key contributors in achieving the objectives of the ESG strategy. We actively engage with them, convinced that cooperation with tenants is a necessary condition for the implementation of relevant and effective measures over the 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.

Internal targets for coverage of our tenant engagement measures were defined in 2022 for internal asset managers, who oversee the strategy of the assets we manage. Our tenant engagement efforts are then focused around three core areas:

LEARNING	MONITORING	LIAISING
Educating our tenants on ESG to influence behaviour and improve buy-in	Collecting **data** on the asset and leveraging it to create targeted solutions	Maintaining a **dialogue** with our tenants to understand their present and future needs







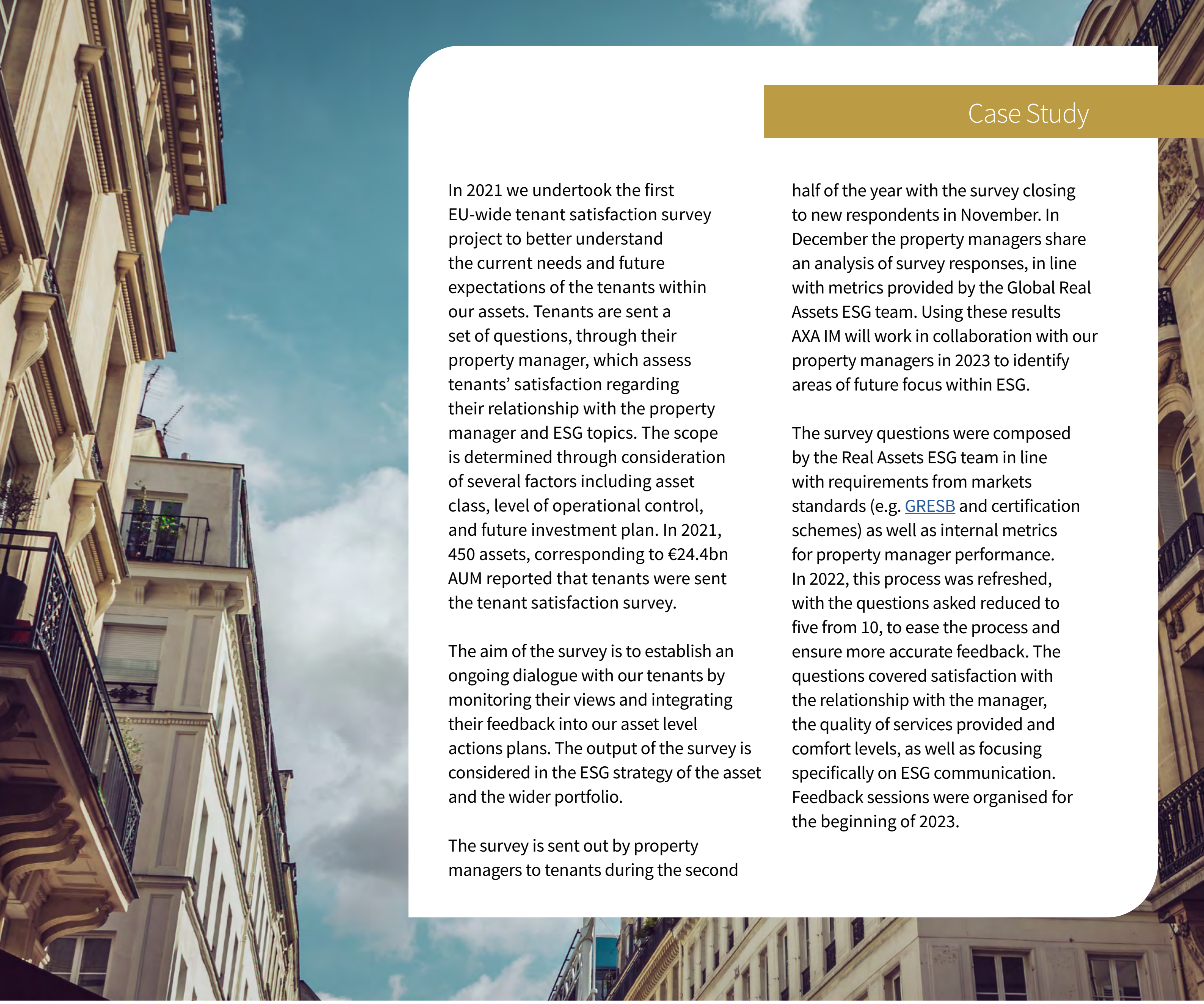
- **Learning**
  We distribute ESG guides to the tenants of our assets to educate and increase awareness of ESG issues and the specific features of our assets related to ESG. For commercial tenants we provide fit-out guides to aid in mindful procurement. Through our ESG Rating we track the number of 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 in order to further the discussion of targeted solutions

- **Liaising**
  We perform annual tenant satisfaction surveys (see case study below) to collect feedback from our tenant on their user experience and level of satisfaction. In 2021, the latest data currently available, 450 assets were included in such an initiative, corresponding to €24.4bn of assets under management (AUM). We also require our property managers to organise an annual 'ESG committee', which is a meeting dedicated to ESG between the property manager and the tenant. In 2021, 52% of AUM in scope report they have carried out an ESG Committee with at least one tenant.[18]

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.

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



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. In 2021, 450 assets, corresponding to €24.4bn AUM reported that tenants were sent the tenant satisfaction survey.

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 will work in collaboration with our property managers in 2023 to identify areas of future focus within ESG.

The survey questions were composed by the Real Assets ESG team in line with requirements from markets standards (e.g. 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.

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 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 metre 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 as well as direct requests for energy consumption and carbon emission data for the underlying assets.

The dialogue was initially undertaken via questionnaire and the survey was developed and issued over summer 2021. The survey was sent out to over 40 borrowers, representing 61 loans valued at €9.6bn. We received 39 responses (a 63% response rate) representing €6bn. This questionnaire was updated in 2022 and circulated during the fourth quarter with results expected in early 2023.

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.

Listed Real Estate

In 2021, two engagement exercises were undertaken as part of the active stewardship of our listed real estate investment platform.

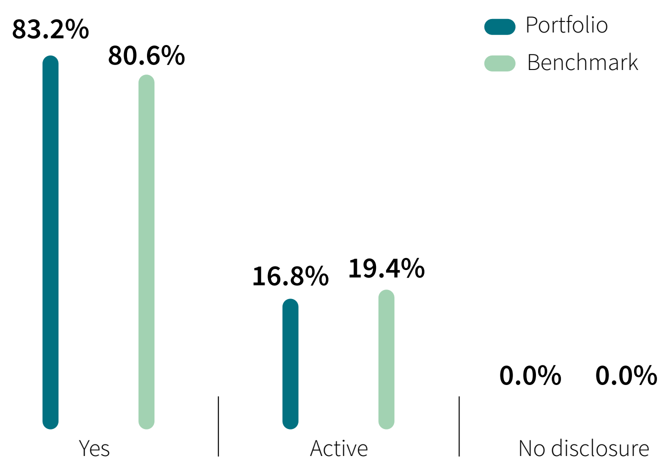
A survey was sent to investee companies in our investment portfolio to gain a better understanding of the qualitative and quantitative metrics associated with the companies' ESG practices and performance. In 2022, we included four additional questions on biodiversity risks and social risk, to understand investee companies' approach.

We also sought to determine the level of alignment of investee companies' commitment to achieve net zero before 2050, for a specific portfolio. This insight was undertaken via direct engagement in addition to the analysis of publicly available data.

Based on responses, investee companies were defined as follows:

- **Committed:** Publicly committed to net zero and set an explicit target date by which it will be achieved
- **Active:** Defined targets to reduce CO_2 emissions by a specified amount, but has not explicitly committed to net zero
- **No disclosure:** Has neither an explicit mention of net zero nor has publicly disclosed a tangible target to reduce CO_2 emissions.

PROPORTION OF INVESTEE COMPANIES COMMITED TO NET ZERO 2022 RESULTS



Source: AXA IM – Alts, Company data as at 31/12/2022. Portfolio weights as at 31/12/2022.
For illustrative purposes only.

Comparing the results from 2021 to 2022, the proportion of companies that have committed to net zero within the portfolio has increased from 73% to 83%.

The graph below shows how the portfolio breaks down according to the above criteria, compared to the investible universe. It indicates a portfolio make-up which is largely representative of the benchmark, with slightly greater representation of committed companies.

The single company which had **No disclosure** in 2021 provided their climate strategy alongside their annual report in April 2022. While the company did not commit to net zero, their climate strategy firmly puts them in the **active** category. As such, the portfolio consists of companies that are either committed to net zero or have defined targets to reduce their CO_2 emissions by a specified amount as at December 2022.

The results of the survey have provided a baseline in term of response level and performance as at the end of 2021. This baseline has been used as the foundation for 2022 engagements through survey and direct engagement, with the intention of more actively identifying and encouraging the alignment of investee companies with our commitment towards net zero before 2050.

Natural Capital and Impact

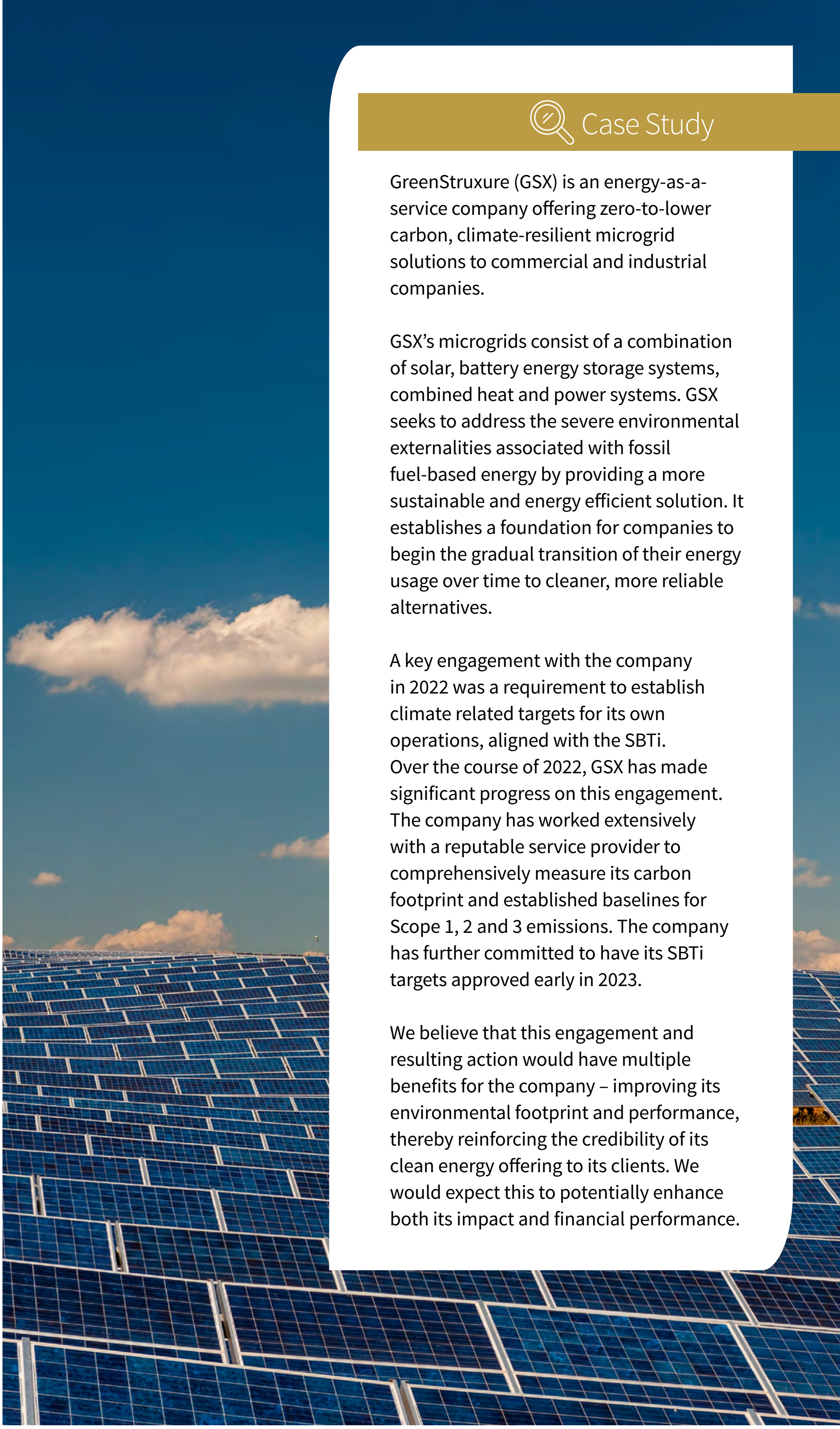
The AXA IM Impact Investing strategy targets the delivery of market rate financial returns alongside the generation of positive, intentional, and measurable impact returns. Using alternative assets – private equity, venture capital, private debt, real assets and project finance – we invest in a broad range of impact themes that aim to deliver on our clients' impact objectives. 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.

We believe that 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 intends to take 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.

During 2022, we enhanced our ESG assessment framework to cover 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 enhanced ESG assessment framework was systematically applied to all new investments in 2022. Where we identified areas of improvement, we developed 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

GreenStruxure (GSX) is an energy-as-a-service company offering zero-to-lower carbon, climate-resilient microgrid solutions to commercial and industrial companies.

GSX's microgrids consist of a combination of solar, battery energy storage systems, combined heat and power systems. GSX seeks to address the severe environmental externalities associated with fossil fuel-based energy by providing a more sustainable and energy efficient solution. It establishes a foundation for companies to begin the gradual transition of their energy usage over time to cleaner, more reliable alternatives.

A key engagement with the company in 2022 was a requirement to establish climate related targets for its own operations, aligned with the SBTi. Over the course of 2022, GSX has made significant progress on this engagement. The company has worked extensively with a reputable service provider to comprehensively measure its carbon footprint and established baselines for Scope 1, 2 and 3 emissions. The company has further committed to have its SBTi targets approved early in 2023.

We believe that this engagement and resulting action would have multiple benefits for the company – improving its environmental footprint and performance, thereby reinforcing the credibility of its clean energy offering to its clients. We would expect this to potentially enhance both its impact and financial performance.

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